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VOL. II

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Page 9 (Footnote), *for* '249-254' *read* '255-260'.

TABLE OF CONTENTS.

	PAGE
Letters from the Government of India regarding the scope of the enquiry ..	i-xi
Questionnaire issued by the Committee	xi-xxvi
Evidence of—	

GOVERNMENT OFFICIALS.

1. M.E.Ry. Diwan Bahadur A. Appadurai Pillai Avargal, M.A., Director of Industries, Madras	9-11
2. M. D. Murtri, Esq., Postmaster, Bangalore	67
3. The Postmaster, Hyderabad, Deccan	69
4. M.E.Ry. B. S. Vaidyanatha Ayyar Avargal, Tahsildar, Ambasamudram	73-77
6. „ A. Subrahmanya Ayyar Avargal, Assistant, the Government School of Commerce, Calicut	148-150
6. „ S. Moses Srinivasagam Avargal, B.A., Tahsildar, Srivaikuntam.	155-156
7. Muhammad Asimattullah Khan Sahib Bahadur, B.A., Revenue Divisional Officer, Ellore division, West Godavari district	176-179
8. M.E.Ry T. P. Narayanaswami Ayyar Avargal, B.A., Tahsildar, Rajahmundry	219-220
9. „ J. Gopalrao Chowdhuri Garu, M.A., District Labour Officer, Guntur	229-231
10. A subordinate of the Deputy Accountant-General, Posts and Telegraphs, Madras	252
11. G. B. Hilson, Esq., B.Sc., Officiating Director of Agriculture, Madras.	255-267
12. M.E.Ry. Philip J. Chandran Avargal, B.A., Registrar of South Kanara, Mangalore	307-314
13. The Presidency Postmaster, Madras	315
14. M.E.Ry. A. Venkateswara Rao Garu, B.A., Assistant Agent, Bhadrachalam division	417-419
15. „ O. Bhannamurti Garu, B.A., L.T., Retired Telugu Translator to Government, Bhimavaram	446
16. The Statistical Assistant, Office of the Director of Agriculture, Madras.	447-450
17. M.E.Ry. A. S. Pais Avargal, B.A., Revenue Divisional Officer, Mangalore	455
18. „ G. Subba Reddi Garu, B.A., Revenue Divisional Officer, Coenada	488-491
19. E. H. M. Bower, Esq., B.A., LL.B. (Lond), I.S.O., M.L.A., Registrar of Joint Stock Companies, Madras	500-501
20. M.E.Ry. T. K. Srinivasa Ayyar Avargal, B.A., Assistant Registrar of Joint Stock Companies, Madras	502-503
21. „ G. T. Cheriyan Avargal, B.A., Assistant Registrar of Joint Stock Companies, Calicut	504
22. „ K. Ramalingam Pillai Avargal, B.A., Inspector of Registration Office, Madras	505-506
23. P. R. deRebelle, Esq., B.A., Assistant Registrar of Joint Stock Companies, Coimbatore	507
24. M.E.Ry. M. Subbiah Mutaliyar Avargal, B.A., Sub-Registrar and Sub-Magistrate, Orattamad, Tanjore district	

25. M.R.Ry. S. Samuel Pillai Avargal, Revenue Divisional Officer, Ariyalur	608-612
26. K. Hashim Sahib Bahadur, Revenue Divisional Officer, Trichinopoly ..	613
27. R. Sivaramakrishna Ayyar, Esq., I.C.S., Revenue Divisional Officer, Karur	614-616
28. M.R.Ry. C. Dorairaj Avargal, Revenue Divisional Officer, Masiri ..	617-620
29. T. Austin, Esq., I.C.S., Collector of Ganjam, Chatrapur	635
30. C. W. Tremenhers, Esq., Special Assistant Agent, Balliguda Division, Russellkonda	636-637
31. The Tahsildar, Ghumsur, Ganjam district	638-639
32. A. S. Panchapakesa Ayyar, Esq., I.C.S., Sub-Collector, Berhampur ..	640-644
33. M.R.Ry. R. V. Krishna Rao Nayudu Garu, B.A., Revenue Divisional Officer, Chatrapur	645
34. Khan Sahib Muhammad Moin-ud-din Sahib Bahadur, B.A., Revenue Divisional Officer, Chinnole	646-649
35. M.R.Ry. R. V. Krishna Ayyar Avargal, B.A., M.L., Secretary, Legislative Council, Madras	649
36. „ K. V. Krishna Rao Nayudu Garu, Tahsildar, Gannavaram ..	651-655
37. „ H. Raja Rao Nayudu Garu, B.A., B.L., Tahsildar of Kaikalur taluk, Kaikalur	656-657
38. „ P. Venkatesam, B.A., Tahsildar, Atmakur	662-663
39. „ S. G. Grubb Avargal, B.A., Revenue Divisional Officer, Nellore	664
40. „ E. Narasimha Rao Nayudu Garu, B.A., Revenue Divisional Officer, Gooty	699-703
41. „ T. K. Srinivasa Ayyar Avargal, B.A., Registrar of Assurances, Madura	768-769
42. „ M. J. Venkatakrishna Pillai Avargal, District Registrar, Bellary	770-771
43. „ G. T. Cheriyan Avargal, B.A., Registrar of Assurances, Calicut	772
44. „ T. P. Venkatarangam Pillai Avargal, Registrar of Assurances, Villupuram	773-774
45. G. Abdul Habib Sahib Bahadur, Registrar of Assurances, Cuddalore, Camp Pittagadi	775
46. M.R.Ry. T. S. Sabapathi Pillai Avargal, B.A., Registrar of Assurances, Tinnevely	776-777
47. C. H. Malan, Esq., O.B.E., I.C.S., Postmaster-General, Madras ..	782
48. The District Labour Officer, Tanjore	783-785
49. M.R.Ry. G. Viswanatha Chetti Avargal, Probationary Deputy Registrar of Co-operative Societies, Bezwada	809-816
50. Muhammad Mohi-ud-din Adeni Sahib Bahadur, Deputy Registrar of Co-operative Societies, Viragapatam	817-824
51. M.R.Ry. C. Bhaskara Rao Nayudu Garu, B.A., Deputy Registrar of Co-operative Societies, Rajahmundry	825-840
52. „ M. Giriappa Avargal, B.A., Deputy Registrar of Co-operative Societies, Calicut	841-846
53. „ Rao Sahib N. Ranganatha Acharya Avargal, B.A., B.L., Deputy Registrar of Co-operative Societies, Bezwada ..	847-862
54. The Tahsildar, Ramnad	863-864
55. „ Sivaganga	865-869
56. M.R.Ry. S. Krishnaswami Ayyangar Avargal, Tahsildar, Tirupattur ..	870
57. „ H. S. Paul Avargal, B.A., Deputy Tahsildar, Tiruvadanai ..	871-873
58. „ C. Thiruvengada Mudaliyar Avargal, Revenue Divisional Officer, Devakottai	

	PAGE
59. M.R.By. N. C. Thomas Avargal, Tahsildar, Srivilliputtur	886-888
60. " Rao Bahadur D. Ananda Rao Avargal, Deputy Director of Agriculture, IV Circle, St. Thomas Mount	889-890
61. R. C. Broadfoot, Esq., Deputy Director of Agriculture, Coimbatore ..	891
62. A. C. Edmonds, Esq., Deputy Director of Agriculture, I Circle, Vinagapatam	892-894
63. M.R.By. P. Ramadoss Avargal, Tahsildar, Kavali	897-898
64. " C. Domaiswami Ayya Garu, Treasury Deputy Collector, Anantapur	899-900
65. Janab Muhammad Ismail Sahib Bahadur, B.A., Revenue Divisional Officer, Anantapur	901-902
66. M.R.By. K. Chiranjivi Pantulu Garu, Registrar of Assurances, Anantapur	916-917
67. " U. Govinda Rao Garu, Registrar of Assurances, Guntur ..	918-921
68. " D. Sitaramayya Pantulu Garu, B.A., Revenue Divisional Officer, Narasaraopet	925-926
69. " P. Periyasami Mudaliyar Avargal, Registrar of Assurances, Chittoor	946-948
70. P. B. deRebello, Esq., B.A., Registrar of Assurances, Coimbatore ..	949-951
71. M.R.By. M. C. Kceavan Avargal, B.A., Registrar of Assurances, Tellicherry	952-954
72. " S. Lakshminarayana Pillai Avargal, Registrar of Assurances, Ramnad	958-960
73. " M. Govindan Nayar Avargal, Revenue Divisional Officer, Cochin	963-966
74. D. W. Dgdwell, Esq., I.C.S., Sub-Collector, Tirupattur, North Arcot.	967-969
75. M.R.By. M. Sivaraja Mudaliyar Avargal, B.A., Deputy Tahsildar, Vaniyambadi	970-971
76. " N. Subrahmanya Ayyar Avargal, B.A., Tahsildar, Gudiyattam	972-974
77. " V. Bankaran Nayar Avargal, B.A., Tahsildar, Tirupattur ..	975-977
78. " Jampalam Venkatesam Chowdhury Garu, Deputy Registrar of Co-operative Societies, Bellary	1012-1016
79. " Muthirulappa Muthalandi Ramachandra Bhupathi Avargal, Deputy Registrar of Co-operative Societies, Vellore ..	1016-1023
80. " K. S. Prakash Rao Garu, Sub-Deputy Registrar of Co-operative Societies, Kurnool	1024-1026
81. " B. S. Baidoor Avargal, B.Com., Sub-Deputy Registrar of Co-operative Societies, Bellary	1027-1033
82. " K. Subrahmanyam Avargal, B.A., Sub-Deputy Registrar of Co-operative Societies in charge of the Co-operative training class, Anantapur	1034-1079
83. T. Bhaskara Rao, Esq., I.C.S., Sub-Collector, Penukonda	1080-1084
84. M.R.By. M. Venkataratnam Avargal, Sub-Deputy Registrar of Co-operative Societies, Ganjam	1085-1089
85. The Commissioner of Income-tax, Madras	1090-1093
86. The Deputy Director of Industries, Madras	1151-1160
87. L. W. Thompson, Esq., B.A., Income-tax Officer, Coimbatore	1161
88. M.R.By. N. K. Sivaram Ayyar Avargal, B.A., B.L., Income-tax Officer, Tinnevely	1162-1166
89. D. N. Sabvala, Esq., Income-tax Officer, IV Circle, Madras	1167-1169
90. M.R.By. A. Savarinatha Pillai Avargal, B.A., Assistant Commissioner of Income-tax, Madura	1170-1222
91. " A. K. Menon Avargal, B.A., F.C.S., Superintendent, Kerala Soap Institute, Calicut	1223-1229
92. " V. Swaminatha Ayyar Avargal, B.A., Deputy Registrar of Co-operative Societies, Coimbatore	1230-1232
93. The Board of Revenue (Land Revenue and Settlement), Madras ..	1235-1297

**REPRESENTATIVES OF LOCAL BODIES, e.g., MUNICIPALITIES,
LOCAL BOARDS AND PANCHAYATS.**

	PAGES
1. M.R.By. S. P. Rajamanioka Pandaram Avargal, President, Taluk Board, Salem	31-33
2. „ Modalavallasa Poi Nayadu Garu, Inamdar and member of the District Board, Visagapatam	33-35
3. „ B. Sitarama Raju Garu, Bar-at-law, President, Taluk Board, Visagapatam	45-60
4. „ Tholasinga Appaswami Avargal, Municipal Councillor, Madura	68
5. „ B. T. Seshadri Achariyar Avargal, President, Taluk Board, Tirupattur	104, 978
6. Kasi Syed Kasim Sahib Bahadur, Member, Hosur Taluk Board and Salem District Board, Andevanpalli	180-182
7. M.R.By. Rajah Subramania Chettiyar Avargal, District Board Member, Salem and Taluk Board Member, Salem	186-189
8. „ Chellarian Karuvan Avargal, Member, District Board, Calicut	193-195
9. „ P. S. Gopalaswami Ayyangar Avargal, Municipal Councillor, Udumalpet	196-198
10. „ K. Srinivasa Rao Garu, Chairman, Municipal Council, Hindupur	232-240
11. „ M. Devadasan Avargal, B.A., B.L., Wakil, and Municipal Councillor, Palamcottah	276-285
12. „ Kuridi Krishna Rao Avargal, Municipal Councillor, Anantapur	286-287
13. „ S. Unnanalai Tevar Avargal, Member, Taluk and District Board, Ramnad, Thummasinnampatti	296
14. „ V. Vasantha Rao Garu, B.A., Chairman, Municipal Council, Proddatur	306
15. „ M. P. M. Ramalinga Mudaliyar Avargal, District Board Member, Tinnevely	387-388
16. „ E. M. Krishnaswami Avargal, Municipal Councillor, Karur	395
17. „ T. Palanivelu Mudaliyar Avargal, Taluk and District Board Member, Tiruvanakoil, Salapakam P. O., Chingleput district	403-411
18. „ S. V. Sundararajan Avargal, Municipal Councillor, Palamcottah, Tinnevely district	586-590
19. „ S. Narasimham Avargal, Vice-President, Taluk Board, Nandigama	604-606
20. Mrs. Nesamony Paul, Municipal Councillor, Palamcottah	778-781
21. M.R.By. KV.A.L.R.M. Ramanathan Chettiyar Avargal, President, Union Board, Kottaiyur, Ramnad district	923
22. „ P. N. Chockalingam Chettiyar Avargal, President, Taluk Board, Sivaganga	924
23. „ C. R. Krishnaswami Ayyar Avargal, B.A., Taluk Board Member, Tirupattur	988-989
24. „ C. Samundi Goundan Avargal, Chief Honorary Organizer of Panchayats, Nattarampalli	1122-1131

COMMERCIAL BODIES.

1. M.R.By. A. R. Venkatasami Nayudu Avargal, Member, Madura, Ramnad Chamber of Commerce, Madura	241-242
2. The Southern India Merchants' and Manufacturers' Association, Limited, No. 98, Godown Street, Madras	305
3. The Southern India Chamber of Commerce, Madras	515-521
4. The Indian Chamber of Commerce, Tuticorin	711-712
5. The Chamber of Commerce, Madras	729-722
6. The Nattukottai Nogarathars' Association, Madras	1101-1114

CONTENTS

BANKERS AND MONEYLENDERS.

	PAGE
1. M.R.By. Rao Sahib S. Tiru malai Ayyangar Avargal, B.A., President, Srirangam Janopakara Nidhi, Limited, Srirangam	26-28
2. J. Gnanamathan, Esq., B.A., L.R., Secretary, the Warier Commercial Bank, Limited, Trichinopoly	29-30
3. M.R.By. P. Raman Avargal, Managing Director, the Uthara Kerala Bank, Limited, Tellicherry	78-79
4. .. M. Govindan, Manager, the Tellicherry Bank, Limited, Tellicherry	80-82
5. Secretary, Katary Vira saiva Lingayat Union Bank, Limited, Katary, Nilgiris	92
6. Lilaram Naraindas, Esq., Madura	113-117
7. M.R.By. K. Viswanathan Avargal, Secretary, the Merchants' Bank, Limited, Tanjore	123-125
8. Secretary and Treasurer, Tanjore Permanent Fund, Limited, No. 1087, Mission Street, Tanjore	126-131
9. Secretary, The Trichinopoly Varthagasangam, Limited, Trichinopoly ..	144-147
10. M.R.By. T.V. Kristachar Avargal, President, Sri Venkatramanaswami Permanent Bank, Limited, Harpanahalli	151
11. N. S. Pahalajani, Esq., Madura	171-175
12. M.R.By. U. Rama Panikkar Avargal, Managing Director, Thoyakkavu Bank, Limited, Thoyakkavu Post office, Chowghat, South Malabar	192
13. .. K. Srinivasan Avargal, Secretary, the Kollegal Sri Venkateswara Nidhi, Limited, Kollegal	199-200
14. Secretary, Nellore Permanent Fund, Limited, Nellore	221-225
15. M.R.By. D. R. Balaji Rao Avargal, Secretary, Indian Bank, Limited, Madras	268-272
16. .. K. S. Venkatasubrahmanyam Avargal, Secretary, Karur Vyaya Bank, Karur	318-321
17. Agent, the Nadar Bank, Limited, Tuticorin	380
18. M.R.By. G. Balasubrahmanyam Avargal, Agent, the Union Bank, Limited, Tiruvarur	420-423
19. .. K. K. Govindarajula Nayudu Garu, Director, Trichinopoly, Tennore Hindu Permanent Fund, Limited, Trichinopoly ..	437-438
20. The Andhra Bank, Limited, Bandar, Masulipatam	704-710
21. M.R.By. C. G. Nataraja Madaliyar Avargal, Secretary, Janopakara Nidhi, Limited, and Honorary Magistrate, Coimbatore ..	727-737
22. Secretary, Dravya Sahaya Nidhi, Limited, Kulittalai	895-896
23. Agent, Imperial Bank of India, Limited, Berhampur	927-930
24. Do. do. do. Calicut	931
25. Do. do. do. Coimbatore	932
26. Do. do. do. Ellore	933
27. M.R.By. Rao Bahadur U. Ananda Rao, Agent, Imperial Bank of India, Mangalore	934-935
28. .. M. B. Sarma Avargal, Agent, Imperial Bank of India, Negapatam	936
29. .. D. Seehagiri Rao, Agent, Imperial Bank of India, Nellore ..	937-938
30. Agent, Imperial Bank of India, Rajahmundry	939-940
31. Tellicherry	941
32. Tianavelly	942-943
33. Vinagapatam	944-945

	PAGES
24. M.R.By. C. A. C. Kasinathan Chettiyar Avargal, Banker, Kothamangalam, Ramnad district	1115-1118
25. „ T. S. Ari Chettiyar Avargal, President, The Tirupattur Lakshmi Vilas Nidhi, Limited	1119-1121
26. The Secretary, Egmore Benefit Society, Limited, Vepery	1125-1126

REPRESENTATIVES OF CO-OPERATIVE ORGANIZATIONS OTHER THAN
GOVERNMENT OFFICIALS.

1. M.R.By. S. Srinivasa Ayyar Avargal, B.A., L.T., M.B.A.S., Secretary, Nallampatti Co-operative Building Society Limited, Vellore.	22-25
2. „ A. Srinivasachari Avargal, B.A., Secretary, Co-operative Banking Union, Limited, Srivilliputtur	36-44
3. „ K. V. Raghavachariyar Avargal, B.A., B.L., President, the Co-operative Bank, Nellore	61-65
4. „ C. Rajagopalachari Avargal, B.A., B.L., President, Visiavada Co-operative Central Bank, Bezvada	70-72
5. „ P. S. Sundaram Ayyar Avargal, President, Co-operative Urban Bank, Limited, Periyakulam	93-95
6. „ K. Krishnamurthi Rao Garu, B.A., B.L., Secretary, District Co-operative Central Bank, Cuddapah	96-103
7. „ Rao Sahib V. Krishna Menon Avargal, B.A., President, Malabar District Co-operative Federation Limited, Calicut	118-122
8. „ N. P. Krishna Ayyangar Avargal, President, Co-operative Society, Nanguneri	157-170
9. „ M. G. Vasudevayya Avargal, B.A., B.L., President, Salem Co-operative Union, and Secretary, Salem Bank, Limited, Salem	183-185
10. Secretary, Tinnevely District Co-operative Banking Union, Limited, Tinnevely	190-191
11. M.R.By. G. L. Narayana Avargal, Director, Local Co-operative Union, Peddapuram	243-246
12. „ M. Narayana Rao Garu, B.A., B.L., Director, District Co-operative Central Bank, Limited, Anantapur	273-275
13. „ M. Bhimasena Rao Avargal, President, Adoni Co-operative Loan and Sale Society and the Co-operative Town Bank, Limited, Adoni	316-317
14. „ M. K. Pattabhiram Avargal, B.A., Secretary, Urban Bank Limited, Tiruchengodu	355-356
15. „ V. Srinivasachariyar Avargal, B.A., B.L., President, South Arcot Central Co-operative Bank, Limited, Cuddalore N.T.	389-394
16. The Chingleput District Co-operative Federation, Limited, Conjeeveram.	396-402
17. M.R. By. N. N. Suvama Avargal, B.A., B.L., President, South Kanara District Co-operative Council of Supervision, Mangalore	412-416
18. „ Rao Sahib M. S. Seshachala Ayyar Avargal, Secretary, Co-operative Town Bank, Limited, Tiruvannamalai	426-431
19. „ N. Kameswara Rao Garu, Secretary, Alumaru Local Co-operative Union, Limited, Alamaru	439-445
20. „ G. Dharma Rao Avargal, Secretary, Ganjam District Co-operative Banking Union, Limited, Berhampur	456-460
21. Janab Syed Ameer Ali Sahib Bahadur, Secretary, Berhampur Co-operative Federation, Limited	461-463
22. M.R. By G. S. Subrahmanya Ayyar Avargal, Urban Bank Limited Gobichettipaliyam	464-472
23. „ G. Thalamalai Pillai Avargal, Inspector, Salem District Urban Bank, Limited, Mukhampatti	473-474
24. „ A. Ramachandran Avargal, Inspector, District Co-operative Bank, Hosur Circle, Hosur	475-478
25. „ T. D. Ramanathan Avargal, District Bank Inspector, Omalur Circle, Omalur	479

	PAGES
26. M.R.Ry. G. Srinivasaraghavachari Avargal, Secretary, Madura-Ramanad District Co-operative Federation, Limited, Madam.	492-495
27. " K. Srinivasan Avargal, B.A., Inspector, Salem District Bank.	496-499
28. " S. S. Namasivaya Mudaliyar Avargal, President, Tiruchendur Co-operative Supervising Union, Limited	508-510
29. " O. M. Venkatasatha Ayyangar Avargal, Co-operator, Uttaramerur	511-513
30. " R. Sundaram Ayyar Avargal, B.A., B.L., Secretary, Co-operative Central Bank, Limited, Tanjore	522-527
31. " V. Raghava Ayyangar Avargal, M.A., L.T., President, Co-operative Supervising Union, Mayavaram	528-531
32. " R. Subburama Ayyar Avargal, President, Aiyampatti Co-operative Union, Limited, Aiyampatti	532-534
33. " N. Chakravarthi Ayyangar Avargal, B.A., L.T., President, Sattur Town Co-operative Society, Sattur	535-536
34. " R. A. Sivananda Mudaliyar Avargal, President, South Arcot District Co-operative Federation, Limited, Cuddalore	554-556
35. " P. Duraiswami Avargal, B.A., Acting Manager, Co-operative Central Bank, Limited, Vellore	557-559
36. " Rai Bahadur V. Murugesu Mudaliyar Avargal, Secretary, Co-operative Central Bank, Limited, Vellore	576-582
37. " K. Sriramulu Avargal, President, Guntur District Co-operative Bank, Limited, Tenali	591-600
38. " E. Jeevaratnam Pillai Avargal, B.A., President, Co-operative Supervising Union, Tiruvallur	601-608
39. " T. E. V. Sarma Avargal, M.B.A.S., Director, Co-operative Land Mortgage Bank, Limited, Chingleput	650-653
40. The Anantapur District Co-operative Central Bank, Limited	658-661
41. M.R.Ry. W. V. B. Ramalingam Pantulu Garu, President, Ganjam District Co-operative Banking Union, Limited, Berhampur.	681-683
42. " K. Sundararajan Avargal, Secretary, District Co-operative Federation, Pottapuram, Omalur taluk, Salem district	688-698
43. " M. Suryanarayana Sastri Avargal, Secretary, Kistna Co-operative Bank, Limited, Masulipatam	712-719
44. " C. Kandaswami Gupta Avargal, Secretary, Tisayinvillai Co-operative Union, Limited, Madura	791-802
45. " B. Venkatramamurthi Garu, Secretary, Gopalpuram Local Co-operative Union, Gopalpuram	803-805
46. " G. Nagi Reddi, Secretary, Co-operative Union, Koilkuntla	806-808
47. President, Gudlavalleru Co-operative Land Mortgage Bank, Limited, Gudlavalleru	913-916
48. M.R.Ry. A. R. *Muniswami Reddiyar, President, Co-operative Union, Arkonam	965-967
49. " P. Ananthaohariyar Avargal, B.A., President, Town Bank, Ranipet	992-995
50. " T. S. Venkataramana Ayyar Avargal, Secretary, Coimbatore Urban Bank, Limited, Coimbatore	996-997
51. " V. Mukuntha Ranga Doss Avargal, President, Vachakurapatti Co-operative Union, Sattur	1182-1184
52. Madras Central Urban Bank, Limited, and the Madras Provincial Co-operative Union, Limited, Madras	1140-1150

OTHER INDIVIDUALS, ETC.

1. H. R. Scott, Esq., Kodaikanal	1-4
2. M.R.Ry. Yothandaram, Hospet	5
3. C. E. Brown, Esq., Manager, Carolina Tea Estates, Coonoor	6
4. O. W. Marden, Esq., Kannocorie Estate, The Nilgiris	7

5.	J. H. Whapshare, Esq., Managing Director, The Oochterlooney Valley Estates, Limited, The Nilgiris	8
6.	M.R.By. C. Ranganatha Ayyangar Avargal, M.A., L.T., London Mission High School, Cooty	12-17
7.	" Rao Bahadur K. S. Venkatarama Ayyar Avargal, B.A., Nagapatam	18-21
8.	" V. V. Govindan Nayar Avargal, B.A., L.T., ex-Member, Malabar District Board and Member, Ezeise Licensing Board, Calicut	22-28
9.	" K. L. Bhundari Avargal, B.A., Vakil, Kundapur	29
10.	Rev. T. O. Witney, London Mission, Salem	90-91
11.	M.R.By. Samuel Mathuranayagam Avargal, Landlord, Murugankurichi, Palamcottah	106-112
12.	Sriman Biswanath Das Mahasayo, B.A., B.L., M.L.C., Berhampur, Ganjam district	132-134
13.	M.R.By. H. S. Kameswara Rao Garu, B.A., B.L., Assistant Agent, Polavaram	135-136
14.	" T. N. Kalidos Avargal, B.A., B.L., Advocate, South Rampart Street, Tanjore	137-143
15.	" Rao Sahib A. Sethuram Ayyar Avargal, Nidamangalam, and M.R.By. Rao Bahadur K. G. Srinivasa Mudaliyar Avargal, Maanargudi	152-154
16.	" B. Rama Reddi Avargal, Landlord, Veldurthi, Dhone taluk, Kurnool district	201
17.	" Rao Bahadur A. Vedaohalam Ayyar Avargal, Retired Deputy Collector, 33, Nammalwar Street, Georgetown	202-206
18.	" Watrap Subrahmanya Ayyar Avargal, B.A., B.L., Advocate, Sanskrit College Street, Mylapore	207-218
19.	" V. Venkatapunnayya Garu, Gin, Rice and Oil Mills Owner and Cloth Mills Agent, Guntur.. .. .	226-228
20.	" C. Chakravarthi Ayyangar Avargal, B.A., B.L., Vakil, Vellore	247-251
21.	" K. Ramanathan Chettiyar Avargal, B.A., B.L., Advocate, North Mada Street, Mylapore	253-254
22.	" Diwan Bahadur N. Subba Rao Avargal, Mercara Hill, Mangalore	258-292
23.	" S. Singaram Avargal, 'Glen Friars', Yarcand, Salem	293-295
24.	" O. Krishnamurti Rao Garu, Cotton Merchant, Adoni	297-301
25.	" R. Sivarama Ayyar Avargal, Ravanasamudram, Tinnevely.. .. .	322-354
26.	" T. S. Venkataramana Ayyar Avargal, Coimbatore	357-359
27.	" A. K. T. K. Narayanan Nambudripad Avargal, Landlord, Desamangalam, Shoranur	361-363
28.	" Rao Sahib K. S. Srinivasa Ayyar Avargal, B.A., B.L., Advocate, "Sri Bagh", South Main Street, Tanjore	364-370
29.	" K. Kuttan Unni Nayar Avargal, Elaya Nayar of Kavalappara, "Kottaram", Kavalappara Post, South Malabar	371-376
30.	" T. Govindan Nayar Avargal, B.A., B.L., Vakil, Chowghat	377-386
31.	" K. G. Sivaswami Avargal, B.A., Servants of India Society, Mahadanapuram Post, Kulittalai taluk	424-425
32.	" John S. Ponnayya Avargal, M.A., Lecturer in History and Economics, A. C. College, Guntur	432-436
33.	" K. V. Krishna Rao Pantula Garu, Visianagram	451-454
34.	" O. Gopalayya Avargal, A. V. Subrahmanyam Avargal and another, Kasipuram, Salem district	456-457
35.	" Vithaldas Anandji Sait Avargal, Tirappur	514
36.	Dr. Syed Tajuddin, M.L.C., Tanjore	563-561

	PAGES.
37. M.R.Ry. T. S. Balakrishna Ayyar Avargal, Coimbatore	537
38. „ V. Saranathachariyar Avargal, B.A., B.L., Mettu street, Tirut- turaiyppundi, Tanjore district	562-575
39. Khan Bahadur S. K. Abdul Rasack Sahib Bahadur, M.L.C., Rasack Manzil, Saidapet, Madras	583-585
40. M.R.Ry. Rao Sahib T. S. Kachapakasa Mudaliyar Avargal, B.A., Dubai, The South Indian Export Company, Limited, Madras	607
41. „ Sri Hota Virabhadrayya Garu, Zamindar of Gangole Estate, Tallapudi post	621
42. „ M. R. Sesa Ayyar Avargal (Jr), Tirunillai, Palghat ..	622-627
43. „ C. Ranganayakulu Chetti Garu, No. 20, Govindappa Naick Street, Georgetown, Madras	628-629
44. „ T. Manavedam Valiya Tirumalpad Avargal, Raja of Nilam- bur, Nilambur post	630-634
45. „ P. Suryanarayana, Secretary, Servants of India Society, Calicut	665-678
46. „ S. Ganapathi Rao Pillai Avargal, B.A., B.L., Chattram Superin- tendent under the Tanjore District Board	679-680
47. „ V. S. Anantanarayana Avargal, West Pallasana, Pallasana post, Palghat	684-687
48. „ T. N. Krishnaswami Avargal, Mercantile Bank Buildings, Madras	723-726
49. „ N. G. Ranga Avargal, B. Litt. (Oxon), F.R.S., Pachaiyappa's College, Madras	738-767
50. „ C. K. Venkatachariyar Avargal, President, Panchayat Court, Uttiramerur	786-790
51. „ C. Sundaram Ayyar Avargal, B.A., Pleader, Devakotta ..	874-875
52. „ G. Sundaram Ayyar Avargal, B.A., B.L., Headmaster, N.S. M. V. High School, Devakotta	876-877
53. „ M. R. Sesa Ayyar Avargal, Pleader, Devakotta	878-879
54. „ Rao Bahadur K. Balakrishna Ayyar Avargal, Alangudi, Negapatam taluk, Tanjore district	903-912
55. „ N. Gopalachariyar Avargal, Vakil, Devakotta	922
56. „ K. A. Sankarayya Avargal, Pleader, Tiruvadanai, Devakotta.	961-962
57. „ R. V. Subrahmanya Ayyar Avargal, Journalist, Tiruppattur.	979
58. „ N. Gopala Ayyar Avargal, Pleader, Tiruppattur	980-982
59. „ W. V. Veeraraghava Mudaliyar Avargal, Walajapet	987-989
60. „ S. Dharmalinga Mudaliyar Avargal, B.A., B.L., Pleader, Sholinghur	990-991
61. „ P. S. M. Thirthagiri Chettiyar Avargal, Merchant, Seda Street, Tiruvannamalai	998-1000
62. „ V. R. Viswanatha Ayyar Avargal, Sri Sampathgiri Industrial Mills, Limited, Polur	1001-1011
63. „ E. S. Ganapathi Ayyar Avargal, Pleader, Erode	1094-1100
64. „ C. S. S. Ramanujam Avargal, Ex-Assistant Cashier, Central Bank of India, Triplicane, Madras	1137-1139
65. „ M. S. Varadarajulu Nayudu Avargal, Honorary Trustee, Sri Kallalagar Devasthanam, Madura	1233-1234
66. „ M. A. Muthiah Chettiyar Avargal, Madras (note furnished on Torren's system of registration of titles)	1298-1306

I

Letter from the Hon'ble Mr. E. BURDON, C.S.I., C.I.E., I.C.S., Secretary to the Government of India, Finance Department, to all Provincial Governments, dated New Delhi, the 3rd April 1929, No. F. 2 (III) F/29.

[Subject — Enquiry into banking conditions in India]

I am directed to refer to this Department's letter No. D/5121-F., dated the 22nd December 1925, asking, among other things, for the views of the Local Government as to the best method of surveying the field of banking and of encouraging the development of banking in India. By the time the replies of the Provincial Governments were received, the Government of India had also received the Report of the Royal Commission on Indian Currency and Finance, which recommended the creation of a Central Bank for India. These replies and the Report were duly examined by the Government of India, who came to the conclusion that the establishment of the Reserve Bank of India and its activities through its member banks would go far to remedy some of the major defects in the Indian banking system and to improve banking facilities generally. They therefore thought that on the whole it would be preferable to postpone further enquiry of the kind previously contemplated until some experience of the working of the Reserve Bank of India had been gained.

2 When, therefore, Mr. S. N. Haji moved a Resolution in the Legislative Assembly in February 1927 recommending that a Commission be appointed to investigate the present condition of banking in India and to make recommendations for their improvement and expansion, the Hon'ble the Finance Member, on behalf of the Government of India, explained that, though they shared the desire of Mr. Haji and his supporters that an enquiry should be made into the banking system of India with a view to its improvement, they did not think that the time chosen was opportune. In making this statement Sir Basil Blackett further explained that an important portion of the ground of the proposed enquiry, namely, the financing of agriculture and facilities for agricultural banking would be covered by the Agricultural Commission, and that Government would consider the position again when the Commission had reported.

3. As the Local Government is aware, however, the Reserve Bank Bill was rejected by the Legislative Assembly in February 1928, and the Government of India, feeling that the atmosphere in which the Bill was lost was not favourable to public investigations of a technical and scientific nature, decided to let the question of a banking enquiry rest at least until they had had an opportunity to study the Report of the Agricultural Commission presented in April 1928.

4. Both the Federation of Indian Chambers of Commerce and the Associated Chambers of Commerce revived the question at their respective annual meetings in December 1928, the former passing a resolution urging upon the Government " immediately to appoint an Indian Banking Enquiry Committee with special reference to the system of

indigenous banking with a view to develop and foster the same". Discussions ensued at which the Hon'ble the Finance Member and representatives of both groups of Chambers of Commerce were present : and as the first result of these discussions the broad position which Government decided to take is that described in the following sentences, which are taken from a statement made by the Hon'ble the Finance Member in the Legislative Assembly.

The formation of a Central or Reserve Bank is desirable in order that India may be equipped with a mechanism for the control of currency and credit on the lines approved by modern experience. At the same time, the Government can only proceed subject to their being satisfied as to two conditions : first, that the organization of the Bank is securely settled on sound lines, and secondly, that there is a measure of general support among the representatives of public opinion for the proposals. Full advantage should be taken of any interval which may occur before these conditions are fulfilled and the time is again ripe for reviving the proposals for a Reserve Bank by inaugurating an enquiry into the general banking organization of the country which is intimately connected with the question of a Central Bank. For a Central Bank is essentially the crown of the whole structure of banking in its widest sense, and if it is to be well designed to meet the practical requirements of the country it must be adapted to the banking organization of the country on which it should rest. Viewed from this angle, a banking enquiry will be of value in throwing light on the actual situation throughout the country and in instructing public opinion as to the main requirements.

5. In order to carry public opinion with them as far as possible in the details as well as in the general policy of the matter, the Government of India have taken steps to ascertain the views of leaders of political parties in the Central Legislature and have again conferred with representatives of the Federation of Indian Chambers and the Associated Chambers of Commerce. These further discussions have disclosed a fairly general consensus of opinion as to the broad lines on which the enquiry should proceed and as to its main objects. As to the former it is generally agreed that the enquiry should be divided into two principal stages ; the first covering the collection of evidence and the indication of the main directions in which the opening up of increased facilities is required ; the second stage taking the form of a consideration by experts with world experience of the evidence and suggestions prepared by local Committees during the first stage. As to the main objects of the enquiry these would be to enquire into the existing conditions of banking in India and to make recommendations for the expansion of both indigenous and joint-stock banking, with special reference to the needs of agriculture, commerce and industry. It was accordingly decided to prepare a plan of action to be directed to this end, and to submit it in the first instance for the consideration of Local Governments whose co-operation will be essential.

These are the circumstances which have led to the present communication being addressed to you.

6. As regards the procedure of the enquiry, I am to say in the first instance that the Government of India feel that, if the investigation is

to be adequate and is at the same time to be completed within a reasonably short space of time, it would be impracticable to entrust the whole of the work to a single Committee. The proposal which has so far met with approval is that there should be set up—

- (a) a Central Committee, and
- (b) a number of Provincial Committees to deal with the special requirements of different provinces, such Provincial Committees to consist of persons who have the knowledge of local conditions, which will be all important.

To arrive at a clear definition of the scope and functions of the Central and Provincial Committees, respectively, it is necessary to analyse in some detail the subjects which it is intended that the enquiry as a whole should cover, and the analysis arrived at in the course of the preliminary discussions is as follows :—

- (i) The regulation of banking, with the object of protecting depositors and thereby increasing confidence in the banking system ;
- (ii) Banking education, with the object of providing facilities for obtaining training in banking and generally of creating a body of people who have a real knowledge of the principles and practice of banking ; and
- (iii) The development and extension of banking on sound lines.

The last item is capable of further subdivision as follows :—

- (a) Industrial banks and credit facilities for India's main industries like cotton, ~~jute~~, coal, etc. ;
- (b) Financing of foreign trade ;
- (c) Agricultural credit (including co-operative credit) and credit facilities for small industries ;
- (d) Mortgage banks ; and
- (e) Financing of internal trade in connexion with all the above headings.

7. It is suggested that heads (i), (ii) and (iii) (b) should be definitely excluded from the purview of the Provincial Committees already described, and that head (iii) (a) might also be treated from the beginning as primarily the concern of the Central Committee, although it is recognized that there are certain aspects or subdivisions of the subject to which the Provincial Committees might make a useful contribution. The main matter for study by the Provincial Committees would, however, be head (iii) (c), (d) and (e). These are moreover from every point of view the most important of the whole field of the enquiry. Essentially, the purposes which it is desired to secure so far as the interests of the rural population are concerned, are that the cultivator should be enabled to secure the credit he needs both for the improvement of his land and its equipment and for the marketing of his produce : and that, on the other hand, means should be devised to stimulate the habit of investment and attract banking deposits. It is suggested that, bearing these purposes in mind, the Provincial Committees should conduct in a few selected areas an intensive survey of conditions, existing facilities and requirements, and a general survey of the province as a whole.

8. The Central Committee will be constituted by the Government of India. It is proposed that heads (i), (ii) and (iii) (a) and (b) should from the beginning be made the direct responsibility of the Central Committee. In respect of the two latter heads it might be convenient for the Central Committee to appoint sub-committees to visit important

industrial centres and gain first-hand knowledge of the needs of large industries and departments of trade. In addition to this the Central Committee would act as adviser to the Government of India in laying down at the outset the main lines on which the Provincial Committees should conduct their enquiry and later in sifting the material contained in the various reports submitted by the Provincial Committees and its own sub-committees preparatory to the making of its own final report to the Government. At this point, the second stage of the enquiry will be reached when the Government of India contemplate that they should invoke the assistance of a small body of outside experts (say, three or four) selected by Government either from England or from other countries with well-developed systems of rural credit and industrial banking. These outside experts would act as advisers to the Central Committee. They would carry out joint discussions with the Committee with a view to assisting the latter in making its recommendations to the Government of India as to the best way of dealing with the state of affairs disclosed by the preliminary enquiries above referred to. The experts will further be entitled to submit a separate report of their own, if necessary, to the Central Committee which will include it in its own report submitted to the Government of India.

9. As regards the composition of the Committee, it is suggested that the Provincial Committees should contain the following personnel :—

- (i) A senior officer of Government with considerable district experience and knowledge of rural economy, who will be chairman ;
- (ii) A co-operative expert to provide special experience on rural agricultural credit ;
- (iii) An Indian Economist ;
- (iv) A representative of Commerce ;
- (v) A representative of the indigenous banking community ;
- (vi) A non-official with a close knowledge of the interests of the agricultural classes, who can represent their interests, as the classes who require credit facilities ; and
- (vii) Possibly another non-official similarly to represent small urban interests.

The Committees should be appointed by the Government of India in consultation with the Local Government. It is emphasized that the above are intended to be no more than suggestions. The Government of India will be glad to consider any counter-suggestions which may be put forward by the Provincial Governments.

10. It is contemplated that the Central Committee which will act throughout in close contact with the Hon'ble the Finance Member, should include the following :—

- (a) Two members nominated in consultation with the Federation of Indian Chambers.
- (b) Two members nominated in consultation with the Associated Chambers of Commerce.
- (c) An Indian Economist.
- (d) A banker nominated in consultation with the Imperial Bank of India.
- (e) A banker nominated in consultation with the Association of Co-operative Banks.

(f) A banker nominated in consultation with the Exchange Banks Association.

(g) A joint-stock banker, and

(h) An indigenous banker.

The question of the representation of the general interests of the public and particularly of agriculture from the side of those who require credit facilities still remains to be settled. It will also be observed that no provision has been made for the representation of the Indian legislature as such on the Central Committee. This is due to the technical nature of the enquiry. But, in view of the great interest shown by that body in the enquiry, the Hon'ble the Finance Member has agreed to keep in touch with the Central Committee at all stages of its activities and to keep the leaders of political parties apprised, by means of informal conversations, of the progress of the enquiry.

11. Subject to consideration of the views of the Local Governments, the Government of India propose that the first meeting of the Central Advisory Committee should be held in Simla about the middle of May when a memorandum laying down in some specific detail the heads of enquiry to be undertaken by the Provincial Committees will be placed before them for discussion. The memorandum as approved by the Central Advisory Committee would then be issued to the Provincial Governments to reach them by the end of May so that the Provincial Committees might have their preliminary meetings in June to settle the terms of their questionnaire and their detailed programme of work : and the actual enquiry might begin before August. The important point is that everything should be prepared so that a start might be made immediately after the close of the monsoon period. The Government of India estimate that the Provincial Committees would take about six months to complete their enquiry and submit their reports, while another four months thereafter would be required by the Central Advisory Committee to finish their portion of the task.

12. I am now to enquire whether the Local Government approve of the direction which it is proposed to give to the enquiry and whether they have any improvements to suggest in regard to this. I am also to ask that the views of the Local Government as regards the procedure which it is proposed to adopt may be furnished as early as possible. If the Local Government agree to the procedure contemplated, I am to request that the names of individuals who might suitably be chosen to serve on the Provincial and Central Committees may be furnished to this Department. Finally, I am to invite attention to the enclosed provisional memorandum laying down the broad lines of enquiry to be pursued by the Provincial Committees and to request that any observations which the Local Government may wish to make on this memorandum may also be communicated to the Government of India at an early date.

ENCLOSURES

Memorandum of lines of enquiry by Provincial Committees.

1. The Provincial Committees should make intensive surveys of one or two selected districts in each province and a general survey of the conditions in the province or areas as a whole in regard to agricultural and small industries with special reference to the fabric of finance. The details of the enquiries to be undertaken should be settled by the Provincial Committees themselves, but in order to facilitate tabulation of the results for all India, the following main heads under which the Committees should classify the information and material collected are laid down for their guidance. This should not be held to debar the Provincial Committees from investigating any special provincial features not covered by the heads below.

2. The main heads referred to above are—

I. — Agricultural Credit.

(See in this connexion Chapters XII and XIII of Agricultural Commission's Report.)

(a) Various items of permanent improvement to land. Credit facilities required and actually existing. Rates of interest and period of loans and other conditions. Part played by Imperial Bank, Joint-stock banks, co-operative banks and indigenous banks and bankers. Scope for land mortgage banks and for agricultural credit banks. Co-ordination of credit agencies. Review of system of Government loans and elimination of administrative defects.

(b) Credit facilities required for purchase of agricultural implements and seed and other expenses of production. Facilities actually existing. Rates of interest and period of loans and other conditions. Effect of borrowing on disposal of produce. Part played by different classes of banks and bankers.

(c) Present methods of marketing principal crops. Credit facilities required for financing of products during marketing. Part played by different classes of banks and bankers. Facilities for remittance. Use of negotiable instruments and scope for promotion. Reduction of duty on bills.

(d) Volume of agricultural indebtedness in province and the causes contributing to such indebtedness. Existing credit facilities for discharging debt. Part played by different classes of banks and bankers.

(e) Agricultural enterprises and other small industries in province, like dairy farming, and factories, cotton ginneries, sugar refineries, etc. Possibilities of developing cultivation or of helping cultivator to get a better return by erection of such factories. Credit facilities required and actually existing.

II.—Special study of working of Co-operative banks and co-operative marketing societies.

(See Chapter XIII of Agricultural Commission's Report.)

Extension of co-operation in direction of borrowing and lending on provincial scale instead of local units operating separately in watertight compartments. Relations with Imperial Bank and joint-stock banks. Present difficulties of financing co-operative societies both short and long term capital. Alleged competition of co-operative banks with joint-stock banks.

III.—Special study of indigenous banking.

Collection of available information regarding indigenous banks and bankers and their methods of doing business. Shroffs, large and small, who do not usually call themselves bankers, should be included in enquiry. Information should comprise capital, deposits, cash balance, terms of advances, establishment, clientele, relation to agriculture, industry and trade, facilities required, relation to joint-stock banks and Imperial Bank, attitude towards some sort of governmental supervision and publicity, methods to secure stability and inspire confidence.

IV.—Investment habit and attraction of capital.

(1) Means or institutions in existence for encouraging investment habit. Postal cash certificates and postal savings banks. Classes of population who resort to such forms of investment and methods of attracting other classes. Alleged competition of Government with joint-stock banks. Existing facility for purchase and sale of Government securities. Hilton-Young Commission's proposal for introduction of gold cash certificates.

(2) Growth of cheque habit. Effect on same of abolition of stamp duty on cheques. Other methods of promotion like payment of Government servants and bank employes above, say Rs. 100 by cheques.

(3) Branch banking and investment habit. Experience of Imperial Bank's new branches opened under agreement. Existing difficulties experienced by joint-stock banks in opening new branches.

II

PRESS COMMUNIQUE.

The Government of India published in their letter No. F. 2(III)-F., dated the 3rd of April 1929, addressed to all Provincial Governments a provisional scheme for inaugurating an enquiry into the banking conditions in India drawn up in consultation with the representatives of the two Associations of Indian and European Chambers of Commerce and of the Indian Legislature. They have since consulted the local Governments on the provisional plan and procedure and have now decided to set up (a) a Central Committee, and (b) ten local Committees, that is to say one for each of the nine major provinces and the tenth for

the Centrally administered areas, namely, North-West Frontier Province, Baluchistan, Delhi, Ajmere-Merwara, etc. The main objects of the Enquiry will be the investigation of existing conditions of banking in India and the consideration of what steps, if any, are feasible and desirable under the following main headings :—

(a) The Regulation of Banking with a view to protecting the interests of the public ;

(b) The Development of Banking in the sense of the expansion of both indigenous and joint-stock banking, with special reference to the needs of agriculture, commerce and industry ;

(c) Banking education with a view to the provision of Indian personnel in adequate numbers and with the necessary qualifications to meet the increasing needs of the country for a sound and well-managed national system of Banking.

2. The general field of the Enquiry as a whole has already been analysed and an allocation of the subjects as between the Central and Provincial Committee has been provisionally proposed in the Finance Department letter of the 3rd April 1929. This allocation will be considered by the Central Committee at its first meeting in consultation with the Hon'ble the Finance Member. At the meeting if it seems desirable the terms of reference may be further defined and elaborated, and the heads of enquiry to be undertaken by the Provincial Committees will be discussed and set out in more specific detail. A rough forecast showing how the work on the Central Committee is expected to develop is also published for general information.

3. The personnel of the Central Banking Committee will be as follows :—

The personnel of the Provincial Committees will be published very shortly.

In view of the importance of the Co-operative side of the Enquiry it is possible that a third representative with experience of the working of Co-operative Societies may be added.

4. In view of the fact that credit facilities for India's main industries such as cotton, jute, coal, etc., will form one of the important subjects of direct investigation by the Central Committee and that these industries as such have no direct representation on the Central Committee, the Government of India hope to arrange that any Sub-Committees of the Central Committee which are appointed to deal with these subjects will co-opt locally one or two persons who are connected with these industries.

5. The Government of India wish to offer facilities to any of the Indian States that may desire to associate themselves with the Enquiry.

6. Arrangements are being made for the first meeting of the Committee to be held if possible before the end of June.

SIMLA,

12th June 1929.

Forecast showing how the work on the Central Committee will develop.

- June 1929 .. Preliminary meeting of Central Committee to consider with Finance Member general lines of enquiry and form of questionnaire to be issued to Provincial Committees.
- August 1929 to March 1930. Main period of work by Provincial Committees. During this period probably sub-committees of the Central Committee will be at work collecting information on special problems which are the direct responsibility of the Central Committee.
- March 1930 to November 1930. Members of Central Committee will be occupied in studying the reports of its own sub-committees and the Provincial Committees. Provisional conclusions and recommendations may be settled by the end of this period.
- November 1930 to January 1931. Joint discussions and study of whole subject matter between Central Committee and the Advisory Committee of outside experts.
- April 1931 .. Submission of final report by Central Committee.

III

PRESS COMMUNIQUÉ.

Government of Madras, Finance Department, dated 19th July 1929.

The following press communiqué issued by the Government of India, Finance Department, dated Simla, the 19th July 1929, is republished :—

Press Communiqué.

It is announced for public information that the personnel of the Madras Provincial Banking Enquiry Committee will be as follows :—

1. Mr. H. M. Hood, I.C.S. Chairman.
 2. Mr. P. J. Thomas, M.A., B.LITT., PH.D., Indian Economist.
Professor of Economics, Madras University.
 3. Mr. C. Gopala Menon, M.L.C.
 4. Mr. H. F. P. Hearson, M.L.C. } Representatives of
Commerce.
 5. Mr. M. A. Muthiah Chettiyar, B.A. } Representative Indigenous Banker.
 6. Rao Bahadur B. Muniswami Nayudu, M.L.C. Representative of
Agricultural interests.
 7. Khan Bahadur V. Hameed Sultan Maricair of Negapatam. Representative of
Urban interests.
- Rao Bahadur C. J. Paul, B.A. Secretary.

H. A. WATSON,
Secretary to Government,

IV

G.O. Mis. No. 538, Finance, dated 26th July 1929.

Read—the following :—

From the Government of India, Finance Department,
No. F. 2 (7) F/29, dated 15th July 1929.

Order—Mis. No. 538, Finance, dated 26th July 1929.

The letter from the Government of India, dated 15th July 1929 read above, forwarding the draft questionnaire * drawn up by the Central Banking Enquiry Committee and the further observations made by that Committee is communicated to the Chairman, Madras Provincial Banking Enquiry Committee.

2. Further orders will issue on paragraph 2 (iii) of India's letter relating to the question of entrusting to the Madras Provincial Committee the enquiry into the causes of the failure to utilize the Usurious Loans Act.

ENCLOSURE

Letter from V. K. ARAVAMUDHA AYYANGAR, Esq., C.I.E., Officer on Special Duty, to all Provincial Governments, dated Simla, the 15th July 1929, No. F.2 (7)-F/29.

I am directed to invite a reference to this department press communiqué, dated the 12th June 1929, announcing the appointment of the Indian Central Banking Enquiry Committee. It was stated in paragraph 2 of the communiqué that the heads of enquiry to be undertaken by the Provincial Committees would be discussed and set out in more specific detail at the first meeting of the Central Committee. The first meeting was held in Bombay on the 28th of June last and after careful discussion the Committee decided that in order that the enquiry by the Provincial Committees might be conducted on uniform lines it was desirable to draw up a standard questionnaire for issue by all the Provincial Committees. It was also agreed that the latter should be free to add to the standard questionnaire with a view to eliciting any special provincial or local features.

2. I am now to enclose a copy of the draft questionnaire drawn up by the Central Committee and to request that it may be communicated to the ^{Madras} Bombay Provincial Banking Enquiry Committee with the following further observations of the Central Committee :—

(i) The Provincial Committees may, as stated above, add to the questionnaire with a view to investigate any special provincial features not covered by it.

(ii) The Provincial Committees should make intensive surveys of one or two selected districts in each province and a general survey of the conditions in the province as a whole in regard to agriculture and other small industries allied or supplemental to agriculture, with special reference to the fabric of finance. The Central Committee attach the greatest importance to the collection of facts and figures as accurate as possible. In cases where precise information is not available, there is no objection to information on broad and general lines being furnished.

(iii) The Royal Commission on Agriculture recommended in paragraph 365 of their Report that in every province an enquiry should be made into the cause of the failure to utilize the Usurious Loans Act and that adequate steps should be taken to ensure its application in future. The Central Committee desires that in provinces where separate enquiries have not already been set on foot in pursuance of this recommendation the Local Government should consider the question of entrusting the enquiry to the Provincial Banking Enquiry Committee.

(iv) The Provincial Committees should try as far as possible to complete their labours before March 1930 so that the Central Committee might adhere to the programme forecasted in this department press communiqué, dated the 12th June 1929.

QUESTIONNAIRE ISSUED BY THE MADRAS PROVINCIAL BANKING ENQUIRY COMMITTEE.

(The following memorandum is published in order to assist witnesses in the preparation of their evidence. It is not to be regarded as exhaustive, nor is it desired that each witness should necessarily attempt to deal with all the questions raised):—

I.—Agricultural credit and credit facilities for small industries.

1. Describe the present system by which the agriculturist in your district or province obtains finance—

- (a) for expenses during cultivation,
- (b) for capital and permanent improvements, and
- (c) for other special needs, e.g., failure of monsoon, for land revenue, etc.

What are the rates of interest charged in your district or province in respect of advances, the period for which loans are taken, the nature of the security given and accepted (e.g., standing crops, etc.), and other conditions attaching to the grant of such loans?

Describe the part played in agricultural finance by Government, the Imperial Bank of India, the Joint Stock Banks, Co-operative Banks, the Indigenous Banks and Bankers, professional money-lenders, merchants and dealers, and other organizations giving credit (e.g., companies trading in fertilizers, etc.).

Can you give an estimate of the total amount of capital required for the various purposes stated above for your district or province?

State defects, if any, in the present system and the reasons for the existence of such defects. Do you suggest any remedies?

Is there co-ordination among the various credit agencies including Government, and is there scope for improvement in that direction?

2. Describe the present method of marketing principal crops in your district or province.

What in your opinion are the possibilities of forming pools and of co-operative effort generally in marketing produce?

Describe the credit facilities required for the financing of products during marketing and the facilities actually existing.

In regard to such facilities is there any special difference as between internal trade and foreign trade ?

What is the part played by the different classes of banks and bankers and merchants and dealers during the process of marketing ?

What are the existing facilities available to the public, including banks and bankers, for internal remittance ?

State any defects in the existing system and any suggestions for improvement.

Describe the part played by negotiable instruments in the internal trade of the province.

Have you any suggestions to make for the more extensive use of bills (e.g., by reduction of duty on bills) ?

What are the different classes of hundis current in your part of the country ? What are the peculiarities of each ? Please give sample wording.

Have you any suggestions for the amendment of the Negotiable Instruments Act by which the public and the bankers handling hundis might be better protected or benefited ?

Are hundis emanating from your locality discounted in your local centre or are they sent to a provincial centre and discounted there, or are they held by middlemen, merchants or commission agents ?

What different kinds of instruments of ownership of goods and produce (e.g., railway receipts) and documents are employed for raising money during the process of marketing ?

Are any difficulties experienced in the use of these instruments and have you any suggestions to make with a view to removing those difficulties ?

What in your opinion are the possibilities of operating licensed warehouses in India either on the lines of the system which exists in the United States of America or otherwise ?

Do you think there is any need for Government assistance in the matter ?

3. In your district what is the value of land per acre for different kinds of crops ?

What are the factors affecting such value ? In your reply, please distinguish between—

(a) value of land in Government auction for non-payment of revenue,

(b) value of land in the event of sale by court decree,

(c) value of land in purchase by private negotiation.

4. Is there any legal impediment to mortgage of land and agricultural holdings in your province ? Are there any land mortgage banks or agricultural banks in your province or any other banks for the provision of long-term credit ?

State what you know of their method of work and of raising capital.

If no such institution exists in the province, suggest the lines on which such institutions could be established and worked to the advantage of the landholders and tenants of your province.

Do you suggest any measures for

(a) improvement in the record of rights and title of ownership so as to simplify reference, and to avoid possibilities of disputes and counter-claims by parties other than those who are the clients of the Bank,

(b) simplification of the process of foreclosure and sale by the Mortgage Bank in the event of non-payment,

(c) reduction of costs of reference to the record of rights and of registration of records and of the process at law so as to reduce the burden on the good constituents of the Bank in respect of charges incurred on account of defaulters ?

Should the working capital of the proposed Mortgage Bank be derived largely from

(a) deposits,

(b) funds from central institutions, or

(c) debenture bonds ?

Should debenture bonds carry any Government guarantee either for principal or interest or for both ?

If so, what measures would you suggest to secure Government against unnecessary loss ?

On what terms should agricultural Mortgage Banks raise moneys under each of the abovementioned heads, with or without Government guarantee, and on what terms should they lend out money so as to cover their expenses ?

Please state any other suggestions for the adequate provision of long-term credit against sound security.

5. In order to devise measures for the increase of credit facilities to the agricultural classes it is necessary to reach an estimate as accurate as possible of the existing indebtedness of these classes.

Do you know of any such estimate for a village or a district in your province, or for the whole province ?

In what manner can such an estimate be obtained with reasonable accuracy ?

In such an estimate please distinguish between—

(a) the amount of debt with land as security which is in the form of a registered mortgage,

(b) the amount of debt which is concealed in the form of a judicial sale to circumvent the provisions of Acts such as the Deccan Agriculturists' Relief Act,

(c) the amount of debt which is incurred against any other assets, such as the village house, ornaments, ploughs and other agricultural implements, crops and produce, or debt which is given on the general security of all the assets without a specific pledge.

Please state wherever possible the purposes for which the debt was incurred, such as

(a) the payment of earlier debts,

(b) marriage and other social occasions,

(c) famine and other kinds of distress,

(d) payment of land revenue,

(e) growth of the debt by compound interest, interest not having been paid,

- (f) seeds and manure,
- (g) improved agricultural implements,
- (h) sinking of wells and agricultural improvements,
- (i) education of children.

Please indicate also to whom this debt is largely due and whether the creditors are Government, Banks, Co-operative Societies, or indigenous bankers and professional money-lenders.

State what you know of the rates of interest charged, the methods used for calculating it and for enforcing the payment of the debt.

Do you think a large number of people who are efficient farmers, are being turned into tenants for a period, or tenants at will through the process of the enforcement of the old debts and the landed property passing on into the hands of creditors?

If this process is going on, does it take away from the actual cultivator the incentive to produce more and in an efficient and better manner?

6. Give some idea of the number of small subsidiary industries allied or supplemental to agriculture existing in your province, such as rice milling, dairy farming, gur making, garden produce, cotton ginneries, sugar refineries, handspinning, etc.

Can you suggest methods by which any such industries could be encouraged and by which the producer might be enabled to get a better return for his produce?

Can you suggest any enterprises which may give employment to the farmer during seasons when he cannot make full use of his time on his farm and thus enable him to supplement his income and to raise his standard of living?

What would be the best method of securing working capital for such enterprises?

What financial machinery do you suggest for this purpose?

6-A. Give some idea of small industries other than those mentioned above of which you have personal knowledge, e.g., handloom, weaving, fishery, metal, etc., industries.

To what extent does your reply to question 6 above apply to these industries?

7. State what you know of the relations that exist between the co-operative banks and the other banks in the country, namely, the Imperial Bank of India, the Joint Stock banks and the indigenous banks.

Describe any existing difficulties in the matter of finance in the case of co-operative societies both in regard to short and long term capital.

Can you give an estimate of the amount of extra capital required for financing co-operative movement in your district or province?

Is there any competition in your district or province between the co-operative banks and Joint Stock banks?

If so, to what extent and in what direction?

Have you any views regarding the possibility and desirability of granting financial concessions in order to stimulate the growth of the co-operative movement (e.g., by extension of special exemption from

income-tax to genuine co-operative societies, inclusion of debentures issued by provincial co-operative banks in the list of trustee securities, etc.).

II.—Indigenous banking.

(*Note.*—By indigenous banking is meant all banks and bankers other than the Imperial Bank of India, the exchange banks, Joint Stock banks and Co-operative banks. It includes any individual or private firm receiving deposits and dealing in hundis or lending money.)

1. State what you know of the functions of the indigenous bank or banker in your district or province, enumerating all kinds of business the bank or banker transacts ?

2. How and to what extent does an indigenous bank or banker in your district or province assist in financing agriculture, trade and industry ?

3. State what you know of the organization of the indigenous banking system in your district or province with regard to—

(a) the amount of capital invested,

(b) the volume of their business,

(c) their expenses, and

(d) the relations between one indigenous bank and another and between indigenous banks and other banks in the country, viz., the Imperial Bank of India, the Joint Stock banks and the Co-operative banks.

4. State what you know of the various forms of hundis and other credit instruments used by the indigenous banks and bankers and the extent of their use. Give sample copies of any of the hundis, promissory notes, deposit receipts, etc., used in your locality.

5. State what you know of the indigenous bankers' methods of granting loans and allowing cash credits and the terms and nature of these loans and cash credits.

What are the means by which the indigenous banks and bankers provide themselves with funds to meet their demands ?

What are the rates of interest allowed on various kinds of deposits received by them ?

6. What are the rates of interest either in money or in kind which the agricultural community has to pay at present to the indigenous banker ?

In what manner do you suggest these rates could be brought down by better organization ?

Would the reduction of such rates confer great benefit on the agricultural community and increase its resources thereby leading either to an improvement in the standard of living or enabling them to spend more on agricultural improvements, better agricultural implements, etc. ?

7. Is there a prejudice in your locality against the indigenous bankers ?

Are these bankers sufficiently protected in law ?

Is there any legal or other facility which can be extended to them ?

Are the dealings of this class of bankers with their clientele conducted on sound lines ?

If not, indicate the existing defects, making suggestions for remedying them.

8. Would you suggest any means of making this class of bankers more serviceable to the community ?

Could you suggest any means by which the indigenous banking system in India could be improved and consolidated ?

Do you recommend any special facilities to be given to this class for this purpose ?

What do you think would be the attitude of the indigenous banking community towards the introduction of any measures for regulating their operations and for giving publicity to the same ?

9 After making allowance for the legal expenses, management charges, losses through default and losses through foreclosure, can you give an idea of the net return to the indigenous banks and bankers on their capital ?

10. Please state whether the indigenous banks and bankers are able to meet all demands for accommodation or whether they are obliged to refuse any either on account of the unacceptable nature of the security offered or owing to insufficiency of their working capital ?

11. How in your opinion should the indigenous banking system be linked with the central money market and provincial capitals ?

Would you suggest the establishment of a branch of a Joint Stock bank, or a branch of a Central Reserve Bank, or a local bank with local directorate, in each district with which the indigenous banking system may be connected ?

In what manner could such a bank inspire the confidence of the indigenous bankers and be able to utilize the local knowledge and experience of the latter ?

How is the competition of such a bank with the indigenous bankers to be avoided ?

12. Do you think there is a large amount of money in the districts in the hands of indigenous bankers which does not find employment throughout the year ?

Do you think that owing to this cause any large amount of money is flowing to the provincial capital either for long or for short periods ?

Do you think any kind of improvement in the organization of lending or borrowing can be made by which these funds instead of flowing to the provincial capitals would find remunerative employment in the districts and thereby benefit the districts ?

III.—Investment habit and attraction of capital.

1. What are the existing banking resources in the province ?

Can you state the amount of additional capital, if any, required ?

What are the means or institutions in existence for encouraging savings and investment habit ?

Are the public provided with full facilities for the investment of their savings ?

Can the existing facilities be improved in any way or extended in the smaller interior places ?

Can you give any useful information in regard to the habits of the people of India to invest in silver and gold ?

2. Are Postal Cash Certificates popular in your district or province and can any steps be taken to increase their popularity ?

Do present interest rates of Cash Certificates require revision and do existing terms of issue in any way need change ?

Do Savings Banks afford all possible facilities to the public ?

What classes of population resort to such forms of investment ?

Can anything be done to attract other classes ?

Have you anything to say regarding the alleged competition of Government with banking institutions and bankers in regard to deposits by their attractive rates on Postal Cash Certificates and Treasury Bills ?

3. State the existing facilities for purchase and sale of Government securities afforded by Government, the Imperial Bank of India and other banks. Are you in favour of granting any special facilities to the small agriculturists and the small investors of the country to take up some form of Government security ? If so, state what special facilities you recommend.

State the existing facilities for purchase and sale of securities other than Government securities, afforded by the various financial agencies.

Can you indicate clearly the habits of various groups of people in your district or province with reference to moneys which come into their hands by sale of produce or through any other cause ? Where do they keep this money and for what purposes and in what manner do they use it ?

Do the farmers lend to fellow agriculturists and on what terms ? How do they invest surplus money in a prosperous year ? Give any information you can regarding the amount, growth and distribution of capital among the indigenous population

4. State what you know about the growth of cheque-habit.

What has been the effect of the abolition of stamp duty on cheques ?

What classes of population use cheques ? Have you any suggestions to make for further promoting the cheque-habit (e.g., payment of Government servants and bank employees above Rs. 100 by cheques) ?

Have you any suggestions to make regarding the use of vernacular scripts in banking ?

5. Do you support the view that the banking and investment habit in India is of very slow growth ?

If so, to what causes do you attribute it ?

Have you any suggestions to make regarding the various possible means of educating the people of the country to invest their savings in productive undertakings (e.g., propaganda by Government in regard to Government loans for capital expenditure, etc.) ?

As far as you know, what has been the result of the opening of new branches in recent years by the Imperial Bank of India ?

VI

Letter from V. K. ARAVAMUDHA AYYANGAR, Esq., C.I.E., Officer on Special duty, Government of India, Finance Department, to the Chairman of all Provincial Banking Enquiry Committees, dated Simla, the 23rd July 1929, No. D/900-F.

[Subject.—Stamp duty on Bills of Exchange.]

I am directed to forward herewith a copy of memorandum which has been prepared in this Department on the subject of reduction or abolition of the stamp duty on Bills of Exchange. The question of increasing the popularity of bills has been included in the questionnaire of the Provincial Banking Enquiry Committees and the memorandum now forwarded summarizes the various points that require examination in connexion with any proposal for reduction or abolition of the duty. I am to suggest that the question in paragraph 7 of the memorandum may be carefully examined by your Committee.

MEMORANDUM

Under item 13 of Schedule I of the Indian Stamp Act, Bills of Exchange including hundis are liable to stamp duty as follows:—

(a) Where payable on demand—*Nil*.

(b) Where payable otherwise than on demand but not more than one year after date or sight (*vide* statement on page 407 of Mr. Donogh's Indian Stamp Act).

(c) Where payable at more than one year after date or sight—(stamp duty as on bonds which varies from province to province) (*vide* statement on page 411 of the same book).

2. It has been pointed out by the Indian Chamber of Commerce that the above scale of duty has always been regarded as high by the commercial public and that the progress of banking on sound lines is retarded in India by the above duty. Self-liquidating Bills of Exchange and hundis drawn against goods in the last stages of production or on their way to market are a bank's legitimate investment and with a proper discount market are the quickest assets of a bank. The absence of such bills in any banking system makes really safe banking impossible, for a bank in such circumstances is led to invest its deposits in other commercial paper which is unsafe and unsaleable. The Indian Chamber of Commerce, Calcutta, has further pointed out that the rate of duty of Rs. 9 per Rs. 10,000 is nearly double the duty prevailing in England and has therefore recommended that the Government of India should consider the question of reduction of the duty by at least 50 per cent. Basing their suggestion on paragraph 116 of the Report of the Hilton Young Commission, the Indian Merchants Chamber, Bombay, have gone to the length of suggesting that the duty should be altogether abolished.

3. The Government of India have themselves experienced some difficulty in the working of their currency system on account of the existence of the above high rates of stamp duty on Bills of Exchange including hundis. Under section 20 of the Indian Paper Currency Act the Government can issue emergency currency to the extent of 12 crores of rupees against internal Bills of Exchange. This emergency currency is intended to meet the seasonal demand for the financing of crops. Merchants, manufacturers and traders in India at present finance

themselves by means of a system of cash credits or by the advance of money on demand promissory notes with collateral security where necessary, the stamp duty on such promissory notes being only a fixed amount of annas four when the amount or value of the note is Rupees 10,000 or above. When, therefore, trade demand in India necessitates the expansion of currency, the Imperial Bank of India has to induce the borrowers to convert a portion of their cash credit advances into bills, and the Imperial Bank has been constrained to pay the stamp duty on such bills itself. The Government of India have temporarily got over this difficulty by allowing the Bank to deduct its actual expenses on stamps affixed to these manufactured bills from the interest payable on the emergency currency issued against these bills but the bank itself has been feeling that the procedure is, at times, not consistent with its position and dignity.

4. It has been pointed out by the Indian Chamber of Commerce that the high duty on bills has led the commercial public to evade it by substituting bills payable on demand in place of time bills or usance bills coupled with a verbal understanding between the parties concerned as to the period for which accommodation would be granted. This practice, it is alleged, exposes the debtor to serious risks and makes the creditor, who normally occupies a position of advantage, gain further ground over the debtor.

5. In connexion with any proposals for the reduction or abolition of duty on Bills of Exchange, it has to be considered whether any difference should be made between Bills of Exchange payable not more than one year after date or sight and bills payable at more than one year after date or sight. If the object of the proposed measure is to encourage the bill habit with a view to promote the development of banking it appears that Bills of Exchange payable at more than one year after date may be excluded from the benefit of the proposed reduction or abolition of duty, as such bills will not probably be drawn against goods in the last stages of production or on their way to market and will not therefore be self-liquidating. It is moreover not clear whether Bills of Exchange for a period of more than one year are common, and whether the commercial community attach any importance to such bills, from the point of view of stamp duty.

6. Finally the relations of the Government of India with the local Governments in this matter have to be considered. "Non-judicial stamps" is a provincial subject but under the Devolution Rules, the right of legislation has been reserved to the Indian Legislature. If the Government of India were to legislate for the abolition or reduction of the stamp duty on bills, the local Governments would immediately be faced with a loss of revenue. Some local Governments are on this account opposed to either a partial or wholesale remission of the duty.

7. The questions which the Banking Enquiry Committee will have to examine are therefore—

(a) Should the duty on Bills of Exchange payable otherwise than on demand be abolished or reduced? If it should be reduced, to what extent is reduction recommended?

(b) Should any distinction be made between Bills of Exchange payable not more than one year after date or sight and those payable at more than one year after date or sight?

(c) What, in actual practice, are the different periods for which commercial Bills of Exchange are drawn and for what purposes? Are Bills of Exchange payable at more than one year after date or sight common and for what purposes are they used?

(d) Will the abolition or reduction of the duty on Bills of Exchange affect the duty on bonds which at present is the same as that on Bills of Exchange payable at more than one year after date or sight?

(e) What will be the loss of revenue involved in any recommendations of the Committee and what suggestions are made to meet that loss?

VII

Letter from V. K. ARAVAMUDHA AYYANGAR, Esq., C.I.E., Secretary, Indian Central Banking Enquiry Committee, to all Chairmen of Provincial Banking Enquiry Committees, dated Simla, the 31st August 1929, No. 272.

[Subject:—Provincial Questionnaire.]

I am directed to say that at the preliminary meeting of the Indian Central Banking Enquiry Committee held in June last a sub-committee was appointed to deal with the question of the financing of foreign trade of India. This sub-committee met in Calcutta on the 21st August 1929 and it was decided that the financing of imports and exports should be considered at all the various stages, viz.—

(i) In the case of imports

(a) from the manufacturer to the exporting ports abroad,

(b) from the exporting ports abroad to the importing ports in India,

(c) from the importing ports in India to the distributing centres such as Amritsar, Delhi, Cawnpore, etc., and

(d) from the distributing centres to the consumers.

(ii) In regard to exports

(a) from the village to the mandi,

(b) from the mandi to the exporting ports in India, and

(c) from the exporting ports in India to the foreign importing countries.

It was felt that the question of financing of foreign trade during stages (i) (c) and (d) and (ii) (a) and (b) fell within the purview of the provincial enquiry and it was accordingly decided that a circular letter should be sent to the Provincial Banking Enquiry Committees to enquire into these aspects of the import and export trade of India. I am therefore to enclose a list of questions prepared in this connexion and I am to request that the Provincial Committees may investigate these questions also. Some portion of the ground covered by these questions has already been included in question 2 under section I "Agricultural Credit and Credit Facilities for small industries" in the standard questionnaire issued to the Provincial Banking Enquiry Committees. If the provincial questionnaire has already been issued or finally settled, it is left to the discretion of the Provincial Committees either to issue a supplementary questionnaire or to elicit the required information during the oral examination of witnesses.

ENCLOSURE

LIST OF QUESTIONS.

I Describe the part played by the different classes of banks and bankers and importing and exporting firms in the financing of foreign trade of India during the following stages :—

(a) Export trade

(i) from the village to the mandi,

(ii) from the mandi to the exporting ports.

(b) Import trade

(i) from the importing ports to the distributing centres in India, such as Amritsar, Delhi, Cawnpore, etc.

(ii) from the distributing centres to the consumer.

II. What are the terms on which the financing of trade during the above stages is done? Are any difficulties experienced in connexion with the above financing and have you any suggestions to make for removing those difficulties and for improving in any way the existing financial facilities available for the movement of imported and exportable articles?

III. It has been suggested that the grower of produce in India does not get the full value for his produce on account of the speculative buying and selling activities of firms and companies who deal in the export trade and by the control of prices by these and other bodies. What are your views on this suggestion? Please supplement your views by any facts and figures within your knowledge. Have you any observations to make with a view to ensure a better return to the growers of produce in India?

VIII

G.O. Mis. No. 663, Finance, dated 5th September 1929.

READ—the following papers :—

G.O. No. 538, Finance, dated 26th July 1929.

Letter from the Government of India, Finance Department, dated the 10th August 1929, No. D. 3982-F.

Order—Mis. No. 663, Finance, dated 5th September 1929.

The letter from the Government of India, read above, is forwarded to the Chairman, Madras Provincial Banking Enquiry Committee, for necessary action.

(By order of the Governor in Council)

V. GOPALAKRISHNA AYYAR,
Assistant Secretary to Government.

To the Chairman, Madras Provincial Banking Enquiry Committee.

Copy to the Development Department.

„ Law (General) Department.

ENCLOSURE

Letter from the Government of India, Finance Department, dated Simla, the 10th August 1929, No. D/3982-F.

[Subject:—Banking enquiry.]

I am directed to refer to question 4 under section 1, Agricultural Credit and Credit facilities for small industries, in the standard questionnaire sent with this department letter No. F. 2 (7) F/29, dated 15th July 1929, and to suggest that the ^{Madras} _{etc.} Provincial Banking Enquiry

Committee may be requested to examine the question of inclusion of debentures issued by land mortgage banks in the list of trustee securities. In question 7 under the same section, the inclusion of debentures issued by Provincial Co-operative Banks in such list has been mentioned and the further suggestion now made is with reference to the recommendation made by the Royal Agricultural Commission in paragraph 383 of its Report.

IX

G.O. Mis. No. 3841, Law (General), dated 4th October 1929.

READ—the following:—

G.O. No. 538, Finance, dated 26th July 1929.

Order—No. 3841, dated 4th October 1929.

With reference to paragraph 2 of G.O. No. 538, Finance, dated the 26th July 1929, the Madras Provincial Banking Enquiry Committee is requested to make an enquiry into the working of the Usurious Loans Act in this Presidency as contemplated in paragraph 365 of the Report of the Royal Commission on Agriculture.

X

Letter from V. K. ARAVAMEDHA AYYANGAR, Esq., C.I.E., Officer on Special duty, Government of India, Finance Department, to the Chairmen of all Provincial Banking Enquiry Committees, dated Simla, the 5th October 1929, No. D/2595-A.

[Subject:—Banking enquiry.]

I am directed to forward herewith a copy of a Bill to amend the Negotiable Instruments Act, 1881, which was introduced in the Legislative Assembly on the 2nd September 1929. The further motion to refer the Bill to a Select Committee was, however, rejected by the House for reasons which are referred to below.

2. The object of the Bill was to secure that negotiable instruments including cheques and bills of exchange which are expressed on the face of them as drawn to bearer should not in any circumstances lose their character as bearer instruments on account of their having been endorsed. The necessity for the amendment arose out of a ruling of the Bombay High Court that under section 50 of the Negotiable Instruments Act and the Explanation thereto a bearer bill can be legally changed to an order bill by endorsement. Prior to this ruling the ordinary banking practice in India was to treat all negotiable instruments expressed to be payable to bearer as negotiable by delivery in all circumstances irrespective of any endorsement that might have been made on them. The Bombay High Court's ruling has made it incumbent on the business community to scrutinize all endorsements on bearer documents and upon banks to scrutinize the endorsements even on bearer cheques. It was pointed out by the Associated Chambers of Commerce that this was a great inconvenience to banks and businessmen.

3. The Local Governments, the High Courts and various commercial bodies were consulted on the subject of the proposed legislation and the replies received indicated that there was a general desire to protect

existing local practices in the case of hundis by which instructions regarding the method of payment are not infrequently expressed on the face of these documents. But the bankers were all unanimously against protecting by legislation instructions regarding payment written, printed or impressed on the face of negotiable instruments as the inevitable result would, in the case of cheques, be to make illegible not only the amount of the cheque but even the name of the drawer and thus to facilitate frauds and forgeries. The suggestion was not therefore included in the proposed legislation.

4. The Government of India thought that, if the legislation was passed, there would at least be one type of negotiable instrument which would always remain bearer and would be a great convenience both to the banking community and the commercial public. No one would be compelled to use such an instrument unless he wanted to and it would still be open to any one to use some other instruments payable to order.

5. The discussions in the Legislative Assembly both during this session and in the earlier session when the Bill was first introduced showed that the following objections are entertained by Indian banking and commercial opinion to the proposed change in law :—

(i) A hundi or a cheque is a valuable property and the holder of a hundi or a cheque payable to bearer should not be deprived of his elementary right of protecting himself against loss of his property by theft by making it a 'payable to order' security. It is not fair, simply for the purpose of relieving the banks of their ordinary duty of looking into the endorsements on the back of the instruments, to subject the holder of these instruments to the risk of his property being stolen.

(ii) If the law is amended as proposed the holder of bearer cheque will still be able to protect himself by 'crossing' the cheque. The local practice of expressing instructions regarding the method of payment on the face of hundis acts in the same way as 'crossing' a cheque and if this practice is not protected, the safety of a hundi will be jeopardised. Very few banks in the country accept vernacular signatures on cheques and the system of remitting money by hundis which has grown up with the usage, custom and experience of many decades and which in present circumstances, is a great convenience to the Indian Commercial public for internal remittance, will be upset by the proposed legislation.

(iii) Instruments of credit will be thoroughly enquired into in connexion with the banking enquiry and as a result of the enquiry the Banking Enquiry Committee may make recommendations regarding the modifications which are required in the existing forms of instruments of credit in order to meet the needs of the commercial community. The proposed legislation is from this point of view premature.

6. I am accordingly to request that your Committee will when considering the part played by negotiable instruments in the internal trade of the country and any suggestions for the amendment of the Negotiable Instruments Act specially enquire into the following questions :—

(i) Whether with a view to secure that negotiable instruments fulfil their proper part in Indian commerce, it is necessary to create by law a type of instrument which being originally drawn payable to bearer will always remain payable to bearer ;

(ii) whether legislation designed to secure this end should cover both cheques and other forms of negotiable instruments like hundis ; and

(iii) whether in case such legislation is recommended as desirable, there is any need for protection in the case of hundis analogous to that provided by 'crossing' in the case of bearer cheques.

ENCLOSURE

A Bill further to amend the Negotiable Instruments Act, 1881, for a certain purpose.

WHEREAS it is expedient further to amend the Negotiable Instruments Act, 1881, for the purpose of providing that a negotiable instrument originally made payable to bearer shall be negotiable by delivery notwithstanding that it has been indorsed in full; It is hereby enacted as follows :—

Short title.

1. This Act may be called the Negotiable Instruments (Amendment) Act, 1929.

Amendment of section 13, Act XXVI of 1881.

2. In sub-section (1) of section 13 of the Negotiable Instruments Act, 1881 (hereinafter referred to as the said Act)—

(a) for *Explanation* (i) the following *Explanation* shall be substituted, namely :—

"*Explanation* (i)—A promissory note, bill of exchange, or cheque is payable to order which is expressed by the maker or drawer thereof to be so payable to a particular person and which does not contain words prohibiting transfer or indicating an intention that it shall not be transferable and on which the only or last indorsement, if any, is an indorsement in full", and

(b) in *Explanation* (ii) after the word "expressed" the words "by the maker or drawer thereof" shall be inserted.

Amendment of section 16, Act XXVI of 1881.

3. In sub-section (2) of section 16 of the said Act, after the word "indorse" the words "of a negotiable instrument payable to order" shall be inserted.

Amendment of section 35, Act XXVI of 1881.

4. In section 35 of the said Act, after the words "negotiable instrument" the words 'payable to order' shall be inserted.

Amendment of section 37, Act XXVI of 1881.

5. In section 37 of the said Act, after the words "parties thereto are" the words "in the case of a promissory note, cheque or bill of exchange payable to order" shall be inserted.

Amendment of section 39, Act XXVI of 1881.

6. In section 39 of the said Act, after the words "bill of exchange" the words "payable to order" shall be inserted.

Amendment of section 40, Act XXVI of 1881.

7. In section 40 of the said Act, after the words "negotiable instrument" the words "payable to order" shall be inserted.

Amendment of section 41, Act XXVI of 1881.

8. In section 41 of the said Act, after the words "bill of exchange" the words "payable to order and" shall be inserted.

Amendment of section 44, Act XXVI of 1881.

9. In the *Explanation* to section 44 of the said Act, after the word "indorser" and after the word "signers" the words "of a promissory note, bill of exchange or cheque payable to order" shall be inserted.

10. In section 46 of the said Act in the fourth paragraph and in section 47 of the said Act, after the words "by delivery thereof" the words "notwithstanding that it has been indorsed" shall be added. Amendment of sections 46 and 47, Act XXVI of 1881.

11. In section 49 of the said Act, after the words "negotiable instrument" the words "originally payable to order and subsequently" shall be inserted. Amendment of section 49, Act XXVI of 1881.

12. In section 50 of the said Act—

(a) after the words "negotiable instrument" the words "payable to order" shall be inserted; and Amendment of section 50, Act XXVI of 1881.

(b) in the *Illustrations* for the words "payable to bearer" the words "payable to order" shall be substituted.

13. In section 51 of the said Act, after the words "negotiable instrument" the words "payable to order" shall be inserted. Amendment of section 51, Act XXVI of 1881.

14. In section 52 of the said Act, after the words "negotiable instrument" wherever they occur, the words "payable to order" shall be inserted. Amendment of section 52, Act XXVI of 1881.

15. In section 55 of the said Act, after the words "negotiable instrument" the words "originally payable to order" shall be inserted. Amendment of section 55, Act XXVI of 1881.

16. In section 56 of the said Act for the word "which" the words "if payable to order and it" shall be substituted. Amendment of section 56, Act XXVI of 1881.

17. In section 88 of the said Act, after the word "acceptor" the words "of a bill of exchange" shall be inserted, and after the words "negotiable instrument" the words "payable to order" shall be inserted. Amendment of section 88, Act XXVI of 1881.

STATEMENT OF OBJECTS AND REASONS.

The object of this Bill is to amend the Negotiable Instruments Act, 1881 (XXVI of 1881), so as to provide that negotiable instruments including cheques and bills of exchange, which are expressed on the face of them as drawn to bearer, shall not, in any circumstances, lose their character as bearer instruments on account of their having been indorsed. The necessity for the amendment has arisen out of a ruling by the Bombay High Court that under section 50 of the Negotiable Instruments Act, 1881; and the Explanation thereto, a bearer bill can be legally changed to an order bill by endorsement. This makes it incumbent upon banks and business houses to examine all endorsements upon bearer instruments as the character of an instrument, which is payable to bearer in the first instance, can be effectively altered by any subsequent endorsement, and thus throws considerable extra work and responsibility on banks and commercial houses without any compensatory advantage to their constituents or to the general public.

Under section 13, Explanation (ii), of the Negotiable Instruments Act, a bill indorsed in blank is payable to bearer but under section 49 of the same Act the holder by writing a direction above the indorser's signature may convert the indorsement in blank into an indorsement in full. These provisions under which an order bill which has become bearer may be reconverted into an order bill, will be retained.

SIMLA,
14th July 1929. }

GEORGE SCHUSTER.

XI

SUPPLEMENTARY QUESTIONNAIRE ISSUED BY THE MADRAS PROVINCIAL BANKING ENQUIRY COMMITTEE.

I. FOREIGN TRADE.

1. Describe the part played by the different classes of banks and bankers and importing and exporting firms in the financing of foreign trade of India during the following stages :—

(a) Export trade—

(i) From the village to the mandi.

(ii) From the mandi to the exporting ports.

(b) Import trade—

(i) From the importing ports to the distributing centres in India, such as Amritsar, Delhi, Cawnpore, etc.

(ii) From the distributing centres to the consumer.

2. What are the terms on which the financing of trade during the above stages is done? Are any difficulties experienced in connexion with the above financing and have you any suggestions to make* for removing those difficulties and for improving in any way the existing financial facilities available for the movement of imported and exportable articles?

3. It has been suggested that the grower of produce does not get the full value for his produce on account of the speculative buying and selling activities of firms and companies who deal in the export trade and by the control of prices by these and other bodies. What are your views on this suggestion? Please supplement your views by any facts and figures within your knowledge. Have you any observations to make with a view to ensure a better return to the growers of produce in India?

II. AMENDMENTS TO THE NEGOTIABLE INSTRUMENTS ACT.

1. Whether with a view to secure that negotiable instruments fulfil their proper part in Indian commerce, it is necessary to create by law a type of instruments which being originally drawn payable to bearer will always remain payable to bearer.

2. Whether legislation designed to secure this end should cover both cheques and other forms of negotiable instruments like hundis.

3. Whether in case such legislation is recommended as desirable, there is any need for protection in the case of hundis analogous to that provided by 'crossing' in the case of bearer cheques.

MADRAS PROVINCIAL BANKING ENQUIRY COMMITTEE.

Written evidence of H. R. SCOTT, Esq., Kodaikanal.

(i)

I thank you for sending me a copy of the questionnaire relating to banking methods in the Madras Presidency.

I am intensely interested in the material welfare of Indians and I believe that a great deal can be done to improve and maintain the prospects of all classes by co-operation between bankers and the State by means of finance of all approved transactions through the instrumentality of hundis or bills of exchange or transfer, of different usances and for small round sums free of stamp duty, discountable and rediscountable at differential rates until they reach, if necessary, the Currency Office through the Imperial Bank with several endorsements and then convertible into new short-time currency at some fixed and invariable rate and subject to full rebate on redemption prior to due date, also to extension of time in part, by means of fresh bills approved and endorsed by the same chain of banks.

The control of such essential finance must be left to the discretion of discounters as to individual transactions at the market rate fixed by competition and rationed to individual borrowers rather than by the pressure of rates,* since the higher the rate the greater the difficulty in paying off the debt.

This mechanism exists to-day in the form of emergency currency but its volume is limited to 12 crores, the usance of inland bills to 90 d/st. and the rate variable from 6 to 8 per cent per annum which I consider too high a penalty on traders nor do I think the Imperial Bank should be expected to avail itself of this concession without some small commission for its acceptance or guarantee of eligible rediscounted bills of first-class repute.

The fixed rate chargeable by the Currency office should, I think, be not more than 4 per cent per annum with an allowance to the Imperial Bank of $\frac{1}{2}$ per cent per annum for its endorsement nor should any legal limit be imposed on the issue of such expansion of the currency which reflects goods actually sold and available for distribution at prices made possible by such automatic expansion and contraction of the sole medium of purchase in the hands of workers, i.e., wage earners, through replacement of production sold for money gains.

The absence of effect on sterling exchange of this evolution in the nature of money can be provided for as explained in my various pamphlets on the subject. India's sterling debt should not hinder her progressive trade activity but under the present dispensation, the inland trade turnover of this country is subordinated to the support of the rate because of the heavy remittances necessary to London to discharge interest payments and other 'home charges' including dividends on capital in rupees.

I worked for 20 years in Madras as an exchange and share broker after ten years' experience of commerce there and on the coast so that I can claim some practical experience on the subject of finance as opposed to bank-credit granted against collateral at fluctuating rates.

I am of opinion that it is not the proper function of banks to lend money either to traders or to Government but to confine their business to the finance of trade transactions so far as the parties to each deal are reliable and the usances of the bills offered for discount conform to the nature of the goods sold and the value received by the buyer does not exceed the market quotation for such goods, prices of which will be steadier under my system.

The command of money to-day is serving the double purpose of spending on needs and lending of surplus funds and although such lending is used as spending by borrowers yet it has to be returned plus interest thereon and thus tends to accumulate in the hands of the few to the detriment of the many, thus giving rise to labour disputes and the domination of money power which makes democratic principles worthless in practice.

Many of the questions asked can best be answered by income-tax officers who get a wider purview of the sources of individual incomes than can be obtained by any one else.

Banking transactions which in most cases are money-lending in some form are carried on in secrecy and therefore hidden so far as possible from public enquiry, but bankers themselves might welcome the introduction of some system of 'credit lists' whereby they could ascertain to what extent their clients are indebted elsewhere.

Debt is the curse of India, it cannot be suppressed but if all debts were irrecoverable by process of law unless duly registered at time of contract between the parties concerned and such lists were open for public inspection on payment of a small fee, I think the evil might be mitigated. The registering officer could refuse to record the contract if he considered the terms to be usurious and baneful.

As regards your first question, I would suggest that existing co-operative credit societies should be called co-operative finance societies, that in all cases the seller should be paid by the society not the buyer of necessities for purposes of cultivation; this can be done by means of hundis drawn on the buyer and accepted by him for periods long enough to enable him to retire such liabilities with the sale-proceeds of his next crop.

These hundis could either be purchased outright at face value by the co-operative finance society or discounted for cash. If purchased, the interest will fall upon the drawee or acceptor. There should be no bill stamp duty—vide recommendation of the Royal Commission of 1926. *

This method is more allied to the supply of goods on credit and is more suitable to agriculture; ryots cannot be trusted with money, their payments could be made by means of promissory notes carrying interest but if negotiable, some time-limit must be mentioned thereon and the rate of interest expressed as so much per cent above the official rediscount rate at the Currency office.

It is advisable to have such promissory notes or hundis drawn in round sums with a minimum of, say, Rs. 100 so that they can be retired as convenient to the debtor. I would here mention that whenever the Imperial Bank retires a commercial bill from the Currency office it has the right to demand the return also of its currency notes duly cancelled and attached to the bill when discharged.

The usage of such bills or pro-notes must be left to the discretion of the co-operative finance society who is best able to judge the producers' requirements and the life of the supplies in question.

The co-operative finance society could either sell or rediscount these hundis or pro-notes with the nearest commercial bank to the full extent of its own credit therewith and this bank in its turn could negotiate them with the nearest branch of the Imperial Bank within limits.

The volume of such discount business would be determined in each case by the cash resources of the seller in the form of deposits, share capital and investments as disclosed in its quarterly or half-yearly balance sheet.

Bankers now consider their loans as assets but this assumption is, I think, unwarranted especially since these loans are not transferable, but negotiable hundis and pro-notes might be so considered.

Banks should not find working capital for agriculture or industry; it must come from private surpluses or savings as they are usually called by economists, but savings at the expense of efficiency are not economic. Those who refrain from spending money to-day do so at the expense of others who cannot save because they either lend it for interest or invest it in enterprise and thereby reduce the aggregate of spending power available among consumers, the necessary adjustment has to take the form of lower prices which may involve money losses to producers. Equilibrium has been maintained gradually by the steady fall in the purchasing power of money by means of inflation either by the acquisition of gold through new issues or the action of Governments.

Loans against collateral are pernicious, they tend to enhance the money value of such collateral by helping the borrower to stand off the market until he can extract his own price from all needy consumers.

Conversely when pressed for sale to meet lenders' demands, all collateral will shrink in money value if forced into liquidation.

Banking facilities are regarded by orthodox economists as a method of economising the use of money rather than of creating greater opportunity to workers for wages. Under the present system, the greater the volume of production, the lower becomes the price per unit and per aggregate, but under the system I suggest, the volume and quality of production will tend to balance or approximate the human desire for it until the point of saturation be reached when the price will tend to fall unless supported by export in exchange for commodities only produced abroad.

The law of supply and demand can be better expressed as the law of the supply of goods in relation to the monetary demand for them but when the volume of money is co-ordinated to the volume and value of marketed goods in the hands of merchants, the monetary demand tends to approximate to human needs which are totally disregarded under the orthodox doctrine of monetary economics.

I strongly disapprove of the raising of subscriptions to mortgage banks by means of debentures which can represent nothing tangible beyond the goodwill and material assets of these banks and these assets in case of liquidation will be worth little or nothing. There is no marketable security of land tenure under the ryotwari system nor should Government incur any liability by guarantee of any bank's liabilities. It is the prime function of Government to find short-term currency under guarantee from the banks as to repayment plus interest.

Powerful money-lending interests may be opposed to this scheme on the plea that it would undermine their business but a little reflection will show that their fears are ill-founded since they would be able to increase their operations if sound to an enormous extent and thereby recoup themselves for any reduction in the rates now obtainable by their quasi-monopoly of credit.

Government is the worst offender as regards borrowing from the public and from the bank because it has no alternative method of raising money, but when every transaction beyond those which the banks can finance from their own resources, yields to the State 3½ per cent per annum such revenues will grow with the natural development of trade and its present indebtedness can be carried by gradual conversion at lower rates of interest.

Such Government debts are inflationary especially during construction so far as the proceeds are spent on public works in competition with other capitalist outlay, and the net revenues derived therefrom are questionable because they cannot increase the aggregate spending or earning power of users of them after collection of the taxes necessary to find the interest thereon.

The policy of our Government seems to be socialistic to the extent of developing the country with borrowed funds whereby they pledge the credit or taxability of the community in order to compete with what should be private enterprise attended by risk; it is the function of Governments to govern not to enter the field of enterprise but when once they have started on such policy they are forced to continue in order to secure some financial return on existing works. It is in fact the borrowed money spent to-day which goes to swell the spending power of the people on previous ventures.

Expansion of the currency against ad hoc rupee securities will show a fictitious financial profit on all such Government schemes.

But under the new system I advocate, there will be sufficient inducement to private enterprise to meet the needs of the public out of individual surplus income subscriptions for schemes which promise steady dividends.

Any further outlay on such enterprises can be financed by long-term commitments discountable and rediscountable in new money which will circulate until redeemed by cash collected from the users thereof and will thus insure a steady income to the promoters if their services are needed by the community. The banks are the final arbiters on such occasions.

In short, it is the prime function of the State to lend new money if the banks will guarantee its repayment plus some fixed rate of interest thereon and not for the banks to find the money on the State's guarantee of repayment. This latter is the prevailing view to-day as displayed in the Trade Facilities Act.

The banks are quite competent or better situated to form a sound opinion on the prospects of any enterprise than Government officials.

The Post office has been called in as a Government advertising medium when it stamps our letters with the words 'Support Indian Industries' but these are hampered and hindered by the action of Government itself as the largest borrower in the money market, whereby surplus funds which might venture on such enterprises are diverted into loans to the State with assured incomes and no risk beyond capital depreciation.

When the first principles of sound economics are recognized, the community can be safely left to work out its own material salvation; no control or interference from Government is needed beyond prompt reliable statistical records of the volume of trade and crops for the guidance of the banks who may be trusted to limit their clients' operations in the matter of acceptances.

The signs of the times are large amalgamations and groups of producers who are forced in self-defence to regulate their selling prices to consumers; also constant labour disputes fomented, it is true, by communal teaching but based upon a sense of injustice which arises from the maldistribution of purchasing power and opportunity under our money capitalist system, the want of opportunity to find a free market for their services to others or even to support themselves by their own efforts.

(ii)

My two printed pamphlets 'State Aided Finance' and 'The Realm of Money' are for sale at Messrs. D. B. Taraporevala Sons & Co., 190, Hornby Road, Fort, Bombay, and by G. A. Natesan & Co., Madras.

My new pamphlet 'The Rationalization of Money' is still with the printers, St. Joseph's Industrial School Press, Trichinopoly, but the work is nearly finished after nine months' delay in sending me the proofs!

The gist of my proposals for stabilizing sterling exchange at 1s. 6d. per rupee is (1) the repeal of section 4 of Act IV of 1927 whereby the Master of the Mint, Bombay, is authorized to receive bar gold and to pay for it in new currency at Rs. 21-3-10 per tola fine in lots of not less than 40 tolas subject to a small charge for assay. The object and reason of this repeal is to discourage the hoarding of gold either by individuals or by Government as reserves.

(2) The revision of section 5, to read Rs. 21-8-0 per tola of fine gold in lieu of Rs. 21-3-10 as the Government selling price against legal tender currency then destroyed or withdrawn. This price is arrived at as the equivalent of the selling price of the Bank of England plus cost of its shipment to Bombay. The option of the Controller to sell sterling for delivery in London and clauses 2 and 3 can be repealed but the minimum of 1,065 tolas can be retained.

I have submitted these proposals in detail to Messrs. Premchand, Roychand & Sons, bullion brokers of Bombay, for opinion in reference to the working of their market there in terms of current money but so far without reply.

Since addressing you on 10th instant I have read Mr. L. C. Jain's new book 'Indigenous Banking in India' and I am glad to see that he supports my thesis of an 'open discount market'—vide pages 179-181. He supports my contention that "One obvious reason for the difficulty in utilizing the facilities thus provided is the high rate of interest charged in the emergency issue."

Mr. McWatters was quite right in protesting against manufactured bills and it is not clear on whom they were drawn; they did not represent any transaction and so were not eligible for rediscount at the Currency Office. Sir Norman Murray failed to differentiate between the correct sequence of the issue of new money following trade and the issue of bank credit in advance of traders' resales, the latter may gradually liquidate themselves but the risk is greater and the tendency is to support prices against the ultimate consumer.

The Federal Reserve note system includes trading in Government securities and in this matter is, I think, faulty; such dealings should not create bills eligible for rediscount in new money.

There will be plenty of self-liquidating hundis available when the terms and conditions of their negotiation are more readily understood.

Written evidence of M.B. By. YOTHANDARAM Avargal, Hospet.

I am distressed by age. I am now in my 82nd year. My memory has grown weak. My hand is shaking badly. I cannot fully answer your questionnaire. I confine myself to the essential point. In spite of their low rates of interest, the banks and co-operative societies cannot swallow or fully compete with the professional money-lenders. These men charge interest at rates ranging from 12 to 34 per cent. Their success is due to the elasticity of their business relations. Agriculturist and others get loans from them on personal security or the security of landed property, no matter whether the loans are primary or supplemental ones. Banks and co-operative societies work on rigid lines. Generally they advance loans once and strictly enforce the terms on which they are granted. The borrower may be compelled to take additional sums to complete the work for which he has got the loan. He cannot get it. The professional money-lender pays additional loans according to the needs of the borrower. If he happens to be a merchant and the crop for which the first loan was taken is sugarcane, the borrower would get the loan on condition of his selling its produce, viz., jaggery, through him. The merchant gets commissions both from the seller and the purchaser. With all these disadvantages agriculturists resort to money-lenders.

P.S.—I request that you will be kind enough not to summon me for giving evidence. My health does not permit my leaving my present station.

Written evidence of Mr. C. E. BROWN, Manager, Carolina Tea Estate, Coonoor.

In response to your questionnaire regarding banking facilities and credit.

Our coolies hitherto got heavy advances from us without interest, this estate of only 200 acres tea having given out some Rs. 4,000 advances every year the past few years to obtain about 150 coolies. The amounts were advanced on agreement forms under Act 1 of 1903 now rescinded, and from this year we are advancing the coolies money on pro-note without interest, having given out about Rs. 2,000 to obtain about 90 coolies. I understand many estates around here, owing to the risk now involved since we are unable to sign agreements with the coolies, have stopped advances altogether and the maistris who supply labour are obtaining money from the local marwaris and other money-lenders paying 18 to 20 per cent interest and lending same to the coolies on the same interest, some charging Re. 1 per Rs. 100 per mensem, say, 12 per cent. The coolies seem to obtain credit through their maistris for rice, etc., and their indebtedness is always very heavy—a man earning Rs. 15 a month as factory coolie will often be owing Rs. 100 to Rs. 150 all in all.

The land mortgage banks, proposed to be established, will not of course benefit our coolies who are all Tamils from Coimbatore district, as most of them own no land. The Badaga cultivator owns land and some of these work for us as coolies also and on contract works. These men often have their own tea fields selling the leaf to factories and this is the class who would be most benefited by land mortgage banks in this district.

**Written evidence of Mr. O. W. MARDEN, Kinnacorie Estate,
The Nilgiris.**

It is not unwillingness to help but want of definite knowledge on my part as to the ways in which the Badagas raise money. All I know is that after they have successfully negotiated a loan from the Government Co-operative Department(?) they generally refuse work on estates even at more than double their usual pay, for varying periods, i.e., until their private credit is again exhausted.

You say 'Do you suggest remedies?'. I do, viz., that when Government lends money it should be for specific purposes and that penalties be imposed for inadequate results, or misapplication of the money so lent.

The fact that a man owes money to Government probably curtails his private credit to some extent.

**Written evidence of J. H. WAPSHARE, Esq., Managing Director,
The Oucherlony Valley Estates, Ltd., The Nilgiris.**

I.—Agricultural credit and credit facilities for small industries.

1. A wealthy planter works on his own resources. His less fortunate brethren have either to mortgage their estates or hypothecate their crops to a bank or firm who advances the necessary money for working expenses, capital expenditure, etc. The rate of interest varies, but 7 per cent is what is usually charged. Private firms also charge a commission of 1½ to 2½ per cent on the sale of the crops, whether effected through them or by the planter, and they expect the planter to get his requirements of stationery, tools and stores, manures, and any other commodities they may be handling, from them.

2. The more influential and independent planter prefers shipping his crops Home, but when there is a good local demand, he avails himself of the same by selling a portion of it in the country. We seldom resort to the hundi system of payment from the buyers.

3. The value of virgin land may be estimated as from between Rs. 150 to Rs. 250 per acre for coffee or tea, and Rs. 50 per acre or less for waste land in this part of the country.

4. An agricultural bank worked on economical lines will certainly be of great benefit to the agriculturist who sometimes has to borrow at a very high rate of interest.

5. Many estates have either had to close down or pass into the creditors' hands for one reason or another.

6. These do not exist here.

7. I have no idea.

II.—Indigenous banking.

I am sorry I am not in a position to answer the questions under this head.

III.—Investment habit and attraction of capital.

1. Only a branch of the Imperial Bank of India at Ootacamund. There are the Government Post Offices on the estates, and the Imperial Bank of India at Ootacamund.

2. It is with the intelligentsia, but not with the labouring classes. The Savings Bank offers every facility to the public.

3. Moneys derived by the sale of produce is usually retained by the lenders where the estates have been mortgaged or hypothecated, or deposited in a bank by those of more independent means.

4. Cheques are the most popular and convenient way of transacting business.

5. I hear that nothing but good has resulted by the opening of new branches by the Imperial Bank of India, in many parts of India.

**Written evidence of M.R.Ry. Diwan Bahadur A. APPADURAI
PILLAI Avargal, M.A., Director of Industries, Madras.**

1.—Agricultural credit and credit facilities for small industries.

I find I am concerned with questions 1 (b) and 6 of Section 1.

These are dealt with below.

Question 1 (b)—The present system by which agriculturists obtain finance for capital and permanent improvements.—The permanent improvements with which the Industries Department is concerned consist of boring installations. In places where inadequacy of water-supply is felt for wet lands and in places where there is scope for cultivation of dry crops or industrial crops on large scale, ryots resort to the sinking of wells to bale out water with the help of pumping installations. Large extents of sugarcane, groundnut and cereals of different kinds and also paddy are raised under irrigation wells fitted with pumping installations. These installations are generally put up with the help of the industrial engineering staff attached to the department. Services are rendered almost *gratis* to the agriculturists desirous of improving their irrigation resources, and loans are granted on special and easy terms to help agriculturists in their endeavour to better their prospects. The following statement may give an idea of the extent of work done by the engineering staff:—

	1928.	1929.
• Supervisors	17	17
Mechanics	38	50
Boring maistris	165	226
Hand-boring sets	57	106
Power drill sets	9	20
Test engine sets	31	40
Torpedoing sets	3	3
Sugarcane mill	2	4
Number of borings put down	843	746
Compound installations	500	597
Erections	104	95
Loan applications disposed of	50	47
Amount sanctioned	Rs. 1,03,300	Rs. 70,000

These installations are looked after by the engineering staff of the department on payment of a compounding fee of Rs. 10. This has been fixed too low purposely with a view to help legitimate demand on the part of the agriculturists to get a more efficient supply of water and better outturn from their lands. The terms on which loans are granted will be found in the Special Loan Rules appended*. Since the rules themselves are simple and clear, I find it unnecessary to repeat them here.

2. As far as possible, loans are granted wherever irrigation by means of loan wells promise good result. The amount of the loan is regulated with reference to the solvency of the borrower and his capacity to repay the loan in instalments from the income of the land.

That the loans are popular is clear from the figures of the past nine years given below:—

	Rs.
1921	12,000
1922	33,000
1923	46,500
1924	74,000
1925	97,300
1926	35,000
1927	47,000
1928	1,03,300
1929	70,000

The amount granted in 1929 is no doubt less than the previous year but nearly double that granted in the previous two years. It is clear from the figures that the loans are already popular.

3. The only defect I can see in the working of the Special Loan Rules is the want of promptitude on the part of the applicants to furnish the particulars requisite for the consideration of their loan applications. They are half-hearted in the matter of getting the loans sanctioned and in executing the works for which it is intended. The industrial engineering staff has to be constantly knocking at their door for expediting the informations called for or for the completion of the works. This is due to want of culture and enthusiasm on the part of the agriculturists and this is bound to disappear in course of time.

4. *Question 6.*—The number of small subsidiary industries allied or supplement to agriculture in this province are the following :—

Hand-spinning and hand-loom weaving.

Mat-weaving.

Tape-making.

Lace work.

Basket-weaving.

Dyeing.

Carpentry.

Blacksmithy.

Platter leaves.

Beehive industry.

Rice-milling and cotton ginning cannot be regarded as subsidiary industries to agriculture. Among the industries which may give employment to the farmer during the seasons when he cannot make full use of his time on his farm and thus enable him to supplement his income so as to raise the standard of living, the following may be prominently mentioned :—

(1) *Handloom weaving.*—This offers the best avocation for the farmer during the off-season. He can, with small effort and capital, produce cloth sufficient to clothe himself and his family members and also if he is diligent enough, to earn a small living. No time need be spent in preparing the yarn since ready-made yarn is available at cheap rates in all places. Ginning and spinning mills have come into existence in such large numbers as to supply any quantity of yarn of the required count. All that the farmer need undertake is to set up a small handloom in which he can spend his time advantageously both to himself and to his family. This industry is at present taught in almost all the industrial schools in the Presidency. Girls and boys are learning this art in increasingly large numbers of late. I can quote a number of institutions where boys and girls are acquiring training in this industry.

(2) *Mat-weaving.*—This is another industry to which a farmer can turn his hand with least effort and minimum expense. He can make mats for himself and also for sale if he is so inclined. The kora grass is available either *gratis* or for a small amount. The fibre required for warp and for binding the edges can be had for nothing since it is so easy to get aloe and to extract fibre from it.

(3) *Tape-making.*—This is done with a small charka and twisted yarn. Little boys are capable of manufacturing tapes of any breadth and durability. A blind girl in the London Mission School, Erode, is weaving tapes as deftly as any boy or girl in the institution.

(4) *Lace-making.*—Women are adept in making fine lace after a little practice. I have seen lace of complicated patterns and finish being made in large quantities in the Nellore Mission School. I have seen middle-aged and old women engaged on this work at Ikkadu Industrial School, Chingleput.

(5) *Basket-weaving.*—Basket-weaving either from palmyra leaves or from split bamboo. This is an industry that is done to a nicety by women. There are several centres where basket-making is in practice and fetches a small return to supplement a family income from agriculture.

(6) *Dyeing.*—This can also be classed as an industry that can be carried on during off-season. Almost every house in Madura weavers' quarters has a dyeing vat.

(7) *Carpentry and blacksmithy.*—No doubt there are special classes devoted to this industry but it is not difficult for members of other castes to acquire a training in this industry. I know of fishermen hamlets giving up fishing and taking to blacksmithy on a large scale. Some of the best iron safes are manufactured by the fishermen at Masulipatam. Similarly, carpentry is an industry taken to by almost all classes. No great training is necessary to learn these arts and the implements cost but little.

(8) *Platter leaves*.—The making of platter leaves in places where the particular leaf used for the purpose is available can also be reckoned as one of the off-season industries. Women make platter leaves enough for their family use and for sale on a small scale.

(9) *Beehive industry*.—The appliances required for this industry are quite simple and the Superintendent, Y.M.C.A. Rural Reconstruction Centre, Coimbatore, who is rearing bees in about 30 beehives shows that in about half a dozen hives, a ryot can easily earn Rs. 100 per season. The best season for the collection of honey is between January and July, April and May being the months of best collection. From what I have seen of the industry personally, it is easy for any ryot to pick up this industry.

(10) The chief difficulty in the matter of these small scale industries either as supplementary to agriculture or as independent means of livelihood is a small capital requisite for the purpose, and facilities for marketing the finished goods. It is here that the Co-operative Department can render valuable assistance. The co-operative societies can help the labourers (a) by providing small loans at cheap rates of interest, (b) by purchasing and distributing raw material and supplying the labourers with tools and appliances requisite for the handicrafts, (c) by arranging for the sale of the finished articles. It is difficult no doubt to secure the requisite standard of quality and the honesty in execution on the part of labourers. With the advancement of culture and general improvement in education, such defects will disappear in course of time. A complete description of the cottage industries in vogue in the several parts of the Presidency will be found in the final report of the Special Officer on cottage industries recently published by the Superintendent, Government Press, Madras.

Written evidence of M.R.Ry. C. RANGANATHA AYYANGAR
Avargal, M.A., L.T., London Mission High School, Gooty.

1.—Agricultural credit and credit facilities for small industries.

1. The agriculturist generally obtains his finance from the money-lender in his own village or in the neighbouring town. In every village and town there are two or more money-lenders who have always ready money to lend to the agriculturist either on cash credit basis or on pro-notes in case of small sums and on the mortgage of lands and valuables for sums above Rs. 200. Money for all purposes is obtained in this manner; or there is the trader, who is also a broker, who advances money in season on condition of produce being sold to him or the loan being returned in kind.

Expenses for cultivation are generally found from the latter and those for capital and permanent improvements are secured from professional sowcars or money-lenders who are prepared to lend moneys for longer periods of five years and more on payment of annual interest.

Petty loans to meet special needs such as failure of monsoon, land revenue, are raised from his usual creditors of either class, repayable at the earliest opportunity when a favourable season smiles on him. The security for these loans is generally a simple pro-note; in some cases, jewels are mortgaged, or the loan is treated as part of old loan, consolidated and freshly secured, together with the interest accrued.

Petty loans to meet special needs such as failure of monsoon, land revenue, the trader so that at the time of the harvest he has the first hold on the crop and recovers not only the small loans issued for cultivation and special needs but a portion of the long-term loan. In many places in this district, other itinerary lenders have sprung up—the cattle dealers and cloth merchants who sell cattle and cloths on credit to the ryots and recover the dues either in one lot or in instalments at the time of sale of the annual produce.

It is no surprise therefore that the agriculturist that has had a successful year finds at the threshold of his house as many as six or seven creditors each trying to enforce his full demand, that is, there is the sowcar demanding his interest (he is satisfied with the interest for it is exorbitant and counts against a possible loss of principal), the village trader that has advanced money for cultivation expenses, the cattle dealer that has sold him draught and milch cattle, the cloth merchant who has supplied him cloths and ready-made shirts and breeches and jackets and the Revenue Department for the kist.

Credit organizations such as co-operative banks, joint stock banks and the Government (Agriculturists Loans Act) have either replaced some of these professional money-lenders, or added to the number of money-lending agencies, the cumulative effect of these being the reduction in the average rate of interest charged by individual money-lenders or bankers who, erstwhile, have been levying as much as 30 to 75 per cent per annum.

I am not aware of Imperial Bank or joint stock banks playing any important part in directly providing credit facilities to the agriculturist, but co-operative societies have been organized in many villages in this district, and the professional money-lender has either left the area or become extinct in a place where the society is well managed. But, owing to the appalling illiteracy of the masses in this district and to the want of proper management, these societies are not made the best and proper use of towards financing agriculture. For several reasons money is not obtainable in time through these organizations and hence a member obtains his needs elsewhere and consolidates and gets a loan from the society for discharge of his prior debts. It will thus be seen that almost all the loans secured through co-operative societies are for discharge of prior debts and are for periods ranging from three to five years.

The only other agency that lends money is the Government, and a loan is hedged in by several conditions, which, together with the abuse of the recommending powers of the village officers, only serve to discourage one

from seeking this kind of financial help. Government help is sought for as an extreme necessity when in famine years the money-lenders and other credit organizations refuse to afford financial accommodation to the defaulting borrower. Lo! It is a busy profitable time for the village officers.

In this district, the agricultural population alone may require from 100 to 120 lakhs of rupees for various purposes, and the District Co-operative Bank finances to the extent of about 20 lakhs. The remaining money, it will be seen, should be obtained from individuals, bankers, traders or otherwise.

So far, the money-lenders and credit organizations are mutually exclusive of one another and there is absolutely no co-ordinated attempt on the part of these agencies to solve the question of credit to the rural population, to the advantage of the latter; on the other hand, there is competition in which the ruin of the ryot is imminent.

If there is any agency for credit which is bound to work for the existence and prosperity of the agriculturist, it is the co-operative society. The village co-operative society should take up the provision of rural credit in full and should cater to the dire needs of the ryot at every stage of his life in the village. Both short and long-term credit should be available through this organization. The professional money-lenders should be linked into the movement as depositors satisfied with a reasonable rate of interest, but not as usurious grabbing vampires. The Agriculturists Loans Act should be repealed and the money available with Government should be lent to co-operative bodies to reach the needy cultivator.

At present the handicap to the successful working of the co-operative institutions is want of proper education among masses and human material to run the institutions on sound principles. Until such time when the people understand the working and management of these institutions, a paid agent inspired with the true aims and ideals of co-operation should be appointed for every village or group of villages, to reside in the village, to work for the village and do all that is necessary by way of propaganda among the people of the village. He must be the distributor of credit and the person to whom every member of the village should look as his friend, philosopher and guide.

2. The principal crops of the district, viz., groundnut and cotton, which are exported to foreign countries in large quantities, are mostly secured by middlemen or traders who own factories for decorticating or ginning, and these in their turn offer them for sale to the exporting agents or companies. Between these middlemen owning factories and the producer, there are generally one or two local stockists who have advanced money in season to secure the sale of harvested produce to themselves. Other crops as gingelly, cholam, pulses and wheat for which demand is generally confined within the province are disposed of either directly to the local retail merchants or to other districts through agents. The speculation in the case of these crops is limited. Large speculations are carried on with regard to the commercial crops finding sale in foreign countries.

To avoid large profits going into the hands of several third persons, I should suggest formation of co-operative sale societies for each of these products on a district basis, so as to deal with a large volume of business and negotiate directly with the purchaser. Here and there have already come into existence co-operative loan and sale societies, but even these on account of their restricted transactions cannot avoid the middlemen, though it may eliminate the local stockists.

As for commodities of internal trade, though it may not be profitable to have a district organization to deal with them, the provincial organization (consumers' co-operative stores in Madras) may be brought into touch with them, through the medium of local co-operative societies or the non-credit inspectors of the Co-operative Department. And thus an outlet may be provided for these local products with the minimum interference of go-betweens. If the suggested system of pooling is to work at all, considerable capital should be found to finance the producers both at the time of harvesting and during the slack season; that is, money should be available for

meeting the pressing needs of the producer by a loan up to a certain percentage of the market value on the pledge of the commodities. This capital should be found by raising shares from members and attracting season deposits.

At present, money is obtained on marketable commodities by their being pledged in the godowns of banks situated at a long distance from the place of the producer or from local merchants to whom they are sold at rates to be determined from the prevailing market rate less a certain percentage. In the feverish rush among the competing purchasers, there is much scope for cheating and speculation which finally results either in loss to the producer or in financial bankruptcy to the middleman.

The banks and bankers with whom the products are pledged have very little risks, they having to gain by the interest on advances and the godown rents. The mortgagor has always the risk of fluctuating prices. The failure of the firm of C. K. Narayana Ayyar & Sons recently, involving the ruin of several families in rural areas, is a telling instance of the risks to which a producer is exposed in dealing with middlemen.

3. The value of land is as follows :—

Dry—red soil	100	per acre.
Dry—black-cotton soil ..	150 to 200	per acre.
Wet	500	per acre on an average.

These rates are affected considerably for the worse, when the district is faced with famine conditions due to failure of the monsoon for two or three years successively.

There is generally not much difference in these prices, when it is auctioned or sold in execution of court decree or purchased by private negotiations. There may be stray cases of wide disparity, but they are not generally prevalent.

4. Not in the case of ryotwari lands; but tenants in the enjoyment of shrotriyans or inams cannot mortgage their holdings; land for discharged soldiers cannot be mortgaged.

There are no banks for long-term credit. As a matter of fact no long-term credit is available for land improvement or redemption of agricultural holdings from debts, except through the Agriculturists Loans Act already referred to.

A land mortgage central bank is in course of formation, to finance local land mortgage banks just coming into existence in scattered parts in the province. The scheme as adumbrated already by the forerunners should take effect at once. Loans should be available preferably to middle-class landholders to the maximum amount of Rs. 5,000 per individual and for a period of not less than 20 years. I should discourage all loans on the mortgage of small holdings by petty pattadars, as these are in the end not profitable to the borrower, with his very narrow income. Small agricultural holdings should cease to exist and these pattadars should become either tenants on large estates or take to other professions.

Cattle insurance should form an integral part of the normal operations of a co-operative land mortgage bank.

Copies of transfer of property and rights should be furnished free of cost to co-operative mortgage banks to facilitate reference and transactions.

The Co-operative Societies' Act already contains provisions to recover arrears of loans by reference to arbitration and execution through the Revenue Department, and these are sufficient for the present.

The working capital may consist of all these and should consist mostly of debentures redeemable after a definite term of years, easily negotiable and carrying guarantee of the Government as to interest at the stipulated rate. Government may be represented on the board of management, of course, in minority and in cases of extreme mismanagement, summary procedure may be reserved to Government.

The deposits should be for long term, not less than 10 years, the rate of interest to be 1 per cent more than on debentures, and to be compounded yearly at the debenture rate.

The Central Bank loan should not be charged with interest by more than 1 per cent over that charged on deposits. The lending rate to the agriculturist should in no case exceed 9 per cent.

5. Yes ; I have had such estimates taken at the time of organization of a co-operative society in a village, when property statement had to be prepared. These estimates are almost accurate, especially as the prospective members expect the whole of their debts to be met from co-operative societies.

For the village of Kojjepalle, a village three miles from the taluk headquarters, the figure came to about Rs. 10,000. There are about 50 houses in this village including depressed class people. Of this sum Rs. 6,000 was on the mortgage of land and the rest on pro-notes. These debts were incurred from time to time, for various purposes, including even drink. It is difficult to separate the estimate for the various purposes. It may, however, be said that mainly they were for agricultural purposes, and the debts once incurred were not easily redeemable owing to the small holdings and the consequent small returns and the high rates of interest which sometimes rose to 30 per cent.

The debts were all due to one or two private money-lenders in the neighbouring town and they have subsequently been taken over by the co-operative society.

The money-lenders recover the interest and some small instalment of principal by having a hold on the annual produce which goes through them for sale or by sending agents for prompt collection at the time of disposal of the produce. In many cases they have some informal arrangement with the local men of influence, such as the village accountant and the village magistrate, who act as agents to sowcars for securing these facilities of investment in the village on getting a commission ranging from 5 to 10 per cent on every sum of Rs. 100 lent or realized.

The cases of efficient farmers turning out as tenants are not many in this district. Cases there are of small farmers, heavily indebted, having to sell away their lands and going out to other places, or eking out their living in the village by other means.

The tenant does not lose the incentive as his income is fixed as a definite proportion of the total yield.

6. In this district there are small cottage industries such as dairy-farming and hand-spinning and cotton and groundnut ginning factories. There is scope for increasing the former class of domestic industries by establishing organizations in each village or group of villages for the marketing of the products of these industries : as for the latter, there are at present in every large village or for a group of villages factories owned by bigger landlords or traders. It would be better if these factories are more centrally situated and owned by a co-operative industrial concern, which should be financed by the Central Bank in season. I should suggest spinning, stone-breaking for road metals and repair and digging of village tanks and reservoirs as subsidiary occupations which could bring in some additional income to the farmer during the slack season.

District boards and *khaddar* organizations should look to these and finance them.

6-A. Handloom weaving (both cotton and wool), bamboo tatts-making, shoe-making, are some of the other industries largely prevalent in this area. The manufacture of woollen rugs is particularly carried on in south and west Anantapur district, bordering on Mysore State. The people engaged in these occupations may be severally grouped and financed sufficiently to make their produce marketable, either under the Co-operative Societies Act or by the Department of Industries under provisions for financing cottage industries.

7. Co-operative banks are given facilities of securing overdraft accommodation with the Imperial Bank. They have absolutely no relation with the other joint stock banks and indigenous banks in the country. Short-term capital alone is available for co-operative societies : long-term money is not at all available. Even in regard to short-term money, the existence

of overdues in the society, the mismanagement, want of right sort of human material and the limit to the individual and society's borrowing power make the availability of it in time somewhat difficult.

As was already pointed out, an extra capital of about 80 lakhs may be required. In this district, the co-operative societies are placed in the unenviable position of having no competitors, except private money-lenders here and there. Urban banks suffer to some extent by the existence of nidhis and mutual benefit societies. The same individual secures membership and loans in these urban institutions and becomes a defaulter very soon. Hence, many urban banks have large overdues very easily.

No special financial concessions are necessary at present to the co-operative movement, which already enjoys concessions in the matter of registration and stamp fees, awards and execution. Only in the case of land mortgage banks proposed to be started, the debentures should have at their back the guarantee of interest by the Government. This would stimulate long-term deposits and the financing of long-term credit.

II.—Indigenous banking.

7. In my opinion, no special protection is necessary to this class of bankers. They can very well take care of themselves; but legal enactment is needed to prohibit more than a reasonable rate of interest, say, 2 per cent above the market rate or the rate charged by the local co-operative society.

III.—Investment habit and attraction of capital.

1. To my knowledge there is enough capital in this province available for banks to conduct their normal banking operations. Large amount of money may be required if long-term credit organizations come into existence, and even this extra capital may easily come in with the financial stability guaranteed behind these organizations. No more banks of Arbuthnot type are likely to attract any capital. The educated classes earning monthly salaries or large incomes and merchants generally invest their savings in the shape of deposits and share capital in banks. Even others that have some money to lay by, who till now were in the habit of lending to friends and others on mortgage or pro-notes with a view to earn interest, are now investing in banks at lower rates of interest owing to the difficulty of such loans not returning without resort to civil courts where the procedure is complicated and charges of recovery exorbitant.

Life assurance companies, provident societies, the compulsory provident fund schemes in institutions in regard to their employees, the recurring deposit system in nidhis and co-operative banks—all these provide facilities for savings and investment of the savings. Large savings, in course of time, find their investment in the purchase of lands for agricultural purposes and houses in big cities which yield good rents. But these apply only to the rich and middle class population; the village or agricultural population is entirely left untouched. These would rather have their savings, if any, on more lands and cattle, than in banks.

But there is the general habit of people investing a good proportion of their savings in the unproductive silver and gold wares and jewellery. Sometimes money is borrowed for the purchase of these. About a fourth of one's property could be found in this form, depreciating in value (with the risk of being altogether lost) year after year, while an investment of the same value in a bank would yield interest income. One would hardly find a household in India, the head of which earns say Rs. 35 a month, in which silver vessels (why even gold vessels) and silver and gold jewellery are not seen. The old world habit of this form of investment persists even to-day and perhaps the evil is growing greater with the tendency to wear for personal embellishment jewels set with diamonds and precious stones—the prices of which are more fluctuating than gold and silver.

2. Post Office Cash Certificates were once popular and there was a rush for these when they were first launched out at 6½ per cent interest. But with the decreasing rate, there were large withdrawals in course of time to be invested in other institutions where higher rates were offered. If the popularity is to be increased the interest rate should not be lower than the market rate; perhaps it would be better to give ½ per cent more, owing to the long period for which money is locked up in these certificates. Savings banks afford facilities only for the official population: even here there is need for the increase of the rate of interest from 3 to 4½ per cent.

3. Small savings made by agriculturists and small investors of the country may be encouraged to purchase Post Office Cash Certificates through co-operative institutions and should be redeemable when ripe without the ryot having to go to the post office. At present one has to go to a post office or treasury far away from one's village and a lot of writing work has to be done before any money could be invested in Government bond or withdrawn by sale of it. Some simple procedure should be available, so that even an illiterate ryot may obtain these bonds or facilities through the co-operative society in his village or through the village magistrate.

Yes; the moneys are generally used in the following ways by the different classes :—

Ryot	Payment of prior debts to his several creditors.
Bowcar or money-lender.	Reloaning to borrowers or keeping till such time when it will be most needed.
Middle class or those with an income of Rs. 40 per month and above up to Rs. 200.	Payment of ceremonial or marriage expenses and purchase of jewellery.
Richer class or those with large agricultural incomes.	Investment in banks or purchase of landed property. Purchase of jewellery.

There is no regular system of conservation of money in the hands of a ryot. Wedded to old methods of cultivation, with no tendencies to improve the yield by scientific treatment, it is no wonder if his income is comparatively small, considering his labour and pains and the expenses involved in agricultural operations. There is practically no saving; if any, it is invested in the purchase of additional lands, cattle or houses.

The habit of even the ryot, nowadays, to send his male children to towns for higher education and the consequent monthly recurring expenditure involved in their education, drain off what little savings they could effect; instances there are of such people becoming heavily indebted so as to sell their property and leave their good old village, with tears in their eyes, depending on their sons who perchance manage to get some petty Government jobs far away from their own districts.

4. Cheque habit is at present confined to trading and salaried classes. It is limited among the latter; only those that have accounts in banks where surplus money is deposited resort to cheques.

To my knowledge it has increased the habit, though there is scope for it. Illiteracy of people stands in the way of use of cheques. The ignorant and village populations would not receive cheques in payment of moneys. The scope for deceit and forgery is another obstacle to the free circulation of cheques. Moreover, cheque books cost some money and there is some delay and expense in cashing it.

I should, however, suggest larger use of cheques in town areas where there are banks. Clerks and other employees here may be paid by cheques and these in their turn may make payments to local creditors and others by the issue of cheques, cashable at the bank. This will increase the cheque habit.

To those unacquainted with English, local vernacular scripts may be used in writing up cheques. For this purpose cheque books should be prepared in scripts of the chief vernaculars of the province.

5. Certainly; the habit is very slow and is bound to be so unless confidence of stability and safety is created among the investors. There are very few fields of investment; principally they are the banks, joint stock companies and co-operative societies.

People do not venture to invest in industrial concerns or industrial banks. The few that have speculated in this direction have had their confidence completely shaken with the failure of a number of industrial companies that started like mushroom growth after the report of the Industrial Commission.

Government cannot encourage the savings of other than large moneyed classes to be invested in their securities unless they are easily negotiable at par, if not at a premium and unless the rates of interest are at least as much as those prevailing in the general market.

**Written evidence of M.R.Ey. Rao Bahadur K. S. VENKATARAM
 AYYAR Avargal, B.A., Negapatam.**

I.—Agricultural credit and credit facilities for small industries.

1. (a) There is not much need as he always keeps the grain for seed and the cultivation expenses which are paid in kind.

In some cases where local labour is not available, coolies from the dry tracts of Tanjore district (called Ammapet coolies) are requisitioned and they are paid in money for which the landholder equips himself by hand-loans locally.

(b) No permanent improvements are generally made by the landholders. Capital and permanent improvements are made only by landholders who can incur the expenditure without borrowing.

(c) From the professional money-lender.

The rate of interest varies from 12 to 15 per cent. In the case of large loans it varies from 9 to 12 per cent. Loans without securities are given only in the case of small landholders and that on immovable property. No loans are given or taken on standing crops or produce.

Neither the Government nor the Imperial Bank of India or the joint stock banks help in agricultural finance as such : but joint stock banks give loans to agriculturists on joint securities to solvent clientele. Bankers and professional money-lenders grant loans on high rates of interest.

No company trading in fertilizers give loans as such or help in financing agriculturists.

The total amount of capital required cannot be estimated even approximately. It may be roughly fixed at Rs. 50 lakhs.

The only remedy is the extension of co-operative credit societies for villages or groups of villages. The co-operative credit societies should grant loans on easier terms.

2. The present method is sale to the millowners or to sell it to merchants from other districts who rail the paddy.

Groundnuts are purchased by brokers and middlemen and sold to big export firms.

Dry grains are kept for local consumption and large quantities are not available for sale commercially.

Co-operative effort or pooling for marketing produce is not necessary for this district and will not work well. There is no particular season at which the value will rise: nor is it a fact that at harvest time the value of paddy is low. Sometimes the price is higher at an early harvest and it is not generally advantageous to wait for better prices.

No credit facilities are required for the financing of products.

I do not think there is any need for Government assistance directly, so far as the district of Tanjore is concerned.

3. The value of land per acre—

Wet lands in the western portion of the district ranges between Rs. 2,000 to 1,500 per acre.

The middle portion fetches between Rs. 1,500 to 1,000.

The eastern portion will fetch Rs. 800 to 1,200 per acre.

Only worst lands are sold in Government auction for arrears of revenue. Good lands are never sold for arrears of Government revenue.

Value of land in court sale generally goes at about 60 to 75 per cent of the usual value, though in the case of small extents sold in court auction the full value is realized.

The value given above is the value of lands in purchase by private negotiation, i.e., Rs. 2,000 to 1,500, in Tanjore, Kumbakonam and Papanasam taluks, Rs. 1,200 to 1,500 in Nannilam, Mayavaram and Mannargudi taluks and Rs. 800 to 1,200 in Shiyali, Negapatam and Tirutturaippundi taluks.

The above is the value of paddy lands commanding river irrigation.

Dry lands are valued at Rs. 400 to 800 per acre according as it commands irrigation from tanks and according as it is capable of oil-seeds or other dry grains. Saline lands are valued less.

4. There is no legal impediment to mortgage of land and agricultural holdings.

There are no land mortgage banks or agricultural banks.

Revenue patta is the best record of rights. There are, however, very many difficulties in getting the registry in revenue registers, especially when a portion of one survey field is transferred by sale or otherwise, as the Revenue Department will not subdivide easily and will raise frivolous objections for measurement and subdivision.

The proposed mortgage bank may get its capital from deposits, if taken, at 5½ to 6 per cent.

Funds from central institutions may also contribute to its capital. Government can issue debenture bonds and should give guarantee for due payment of interest and capital.

Government should insist on the placing of the reserve funds in Government securities and the bank should be asked to have a reserve fund equal to the capital in the course of 25 years by a sliding scale to be fixed by Government. It may begin from 1 per cent of the capital.

The agricultural banks should be asked to lend money from 6 to 7½ per cent.

5. No estimate is possible without collection of statistics—

(a) Loans on mortgages can be ascertained from the Registration offices but some of them may have been discharged and special enquiries are necessary to find out the amount of undischarged mortgages.

(b) Not known.

(c) Not possible to give an accurate estimate; but there are large outstandings on jewels and other movable securities.

The purposes for which the debts are incurred are for (a), (b), (c), (d), and (e); (f), (g), (h) and (i) are rare.

The creditors are largely indigenous bankers and professional money-lenders.

The interest charged varies from 9 to 15 per cent according as the person is solvent and period of repayment. Compound interest is charged for long-term loans.

Efficient farmers sell their lands, because special occasions such as marriage, etc., make them debtors and often lands pass into the hands of creditors, as they are unable to repay the loan with interest.

6. Rice milling is generally in the hands of traders and merchants and are rarely run by agriculturists. There is no dairy farming, garden produce, etc., done on a commercial scale. Gur making is done rarely and is consumed locally and there is not much left for sale or for export, so far as this district is concerned.

The industries enumerated above are not possible in this district on a commercial scale.

So far as paddy lands are concerned an efficient farmer can have work on his farm all the year round and there can be no spare time for him to attend to other industries to supplement his income.

6-A. I do not venture any opinion on this.

7. The growth of co-operative movement is essential; but in several areas nearly 20 per cent go into liquidation early and a census of co-operative societies closed will show that really good societies are not always started and many mushroom societies are started more to show in the administration report the increase in the starting of such societies.

It is not fair to exempt co-operative societies from income-tax, though such exemption will stimulate the growth.

II.—Indigenous banking.

1. Only granting of loans on jewels and on immovable property.
2. Practically nil for agriculture. For trade and industries the professional traders borrow and no agriculturist trades or borrows for purposes of trade; nor is there any industry worth the name for being financed for the purpose.
3. (d) The indigenous banker opens cash credit accounts with the Imperial Bank and accepts deposit from indigenous local residents for a small interest and lends out at higher interest. The Nattukottai Chetti firms are the chief indigenous bankers of this type. The indigenous banker also borrows from joint stock banks for short periods. No co-operative bank lends to an indigenous banker.
5. Indigenous bankers grant loans on promissory-notes, payable on demand but on an oral understanding about the period of repayment. The interest is always high. They get deposits for a cheaper rate of interest. The rates allowed for deposits vary from 6 to $7\frac{1}{2}$ per cent.

No interest is paid in kind to the indigenous banker in this district. The rate varies from 12 to 18 per cent.

Rates can be brought down by better co-operative methods.

Reduction of rates of interest will prevent the sale of the holdings and the passing of them into the hands of professional money-lenders.

Unless landholders are educated and are taught to look after their lands themselves instead of leaving them in the hands of lessees and agents, there is no possibility of agricultural improvements. Standard of living has already become high on account of following Western methods of drink and food and coffee and tea have replaced the simple drink of ricewater, much to the detriment of health of the consumers and their progeny and this does not depend on the increase of the resources of the agriculturists: for the increased standard of living in luxury has become the bane of the ryot of the rural area, even though such standard is maintained by obtaining loans.

7. There is prejudice: but it cannot be helped.

They protect themselves sufficiently and are protected by law well.

None so far as I know are required to help the indigenous bankers in the recovery of their loans.

The dealings are generally conducted on sound lines, except rare cases in which the illiterate clientele are cheated by dishonest bankers.

Not many defects exist needing suggestion of remedies.

- 8. The indigenous banking community would resent interference or introduction of measures for the regulating of operations and for giving publicity. The education of the masses is the only remedy. Means can always be found to escape the regulations even if made.

10. They are not able to meet all demands.

They refuse accommodation on both the grounds mentioned in the questionnaire.

11. I do not venture any opinion.

12. Yes.

III.—Investment habit and attraction of capital.

1. The banking resources are the joint stock companies and midhis and co-operative banks. Also the Imperial Bank of India and its branches.

Savings banks and fixed deposits in banks are the only means of savings. Also post office cash certificates.

The existing facilities can be improved in interior places by co-operative banks affording facilities for deposits.

Investments are made in silver and gold not for the sake of investment but for adornment. Silver and gold articles afford means for realizing moneys as a last resource and in times of failure afford the means of living too in some cases.

2. Postal cash certificates are popular; but the rates require enhancement to the original rates at the time of the first issue of the certificates.

Savings banks afford facilities for investment.

Only small savings in towns are deposited in the savings banks.

Nothing can be done to attract other classes.

There is no competition between Government and other banking institutions.

3. The post offices, the brokers at Madras and the Imperial Bank of India give facilities for the purchase of Government securities.

The post offices can send Government securities of Rs. 100 and multiples of Rs. 100 for sale to rural agriculturists. Like post office cash certificates they may be issued even for Rs. 10 and multiples of Rs. 10. The post office cash certificates can be sent through post peons for sale.

Except money-lender landholders, there are not many who have money to spare by sale of their produce.

Farmers lend to fellow agriculturists on promissory notes between 9 to 12 per cent. The surplus money is invested rarely but goes to redeem an old debt, as many of the agriculturists are indebted.

Indigenous population if they have money to spare from their earnings invest the amount in purchase of lands and in the making of ornaments.

4. Cheque-habit is growing.

The effect of abolition of stamp duty has given an impetus to cheque-habit.

• Educated people use cheques.

The suggestion for promoting the cheque-habit may be tried. Vernacular scripts are now being used.

5. Banking and investment habit was of slow growth; but during recent years the growth has been rapid.

The slow growth was due to want of education and distrust.

No suggestions to make regarding educating the public for investing their savings as there are not many who can and will invest in productive undertakings. Those who are doing already are capable of knowing what the productive undertakings are. Very many so-called productive undertakings have failed on account of want of expert knowledge and expert employees to make such undertakings a success. Government propaganda is not likely to be useful. Government should take a share or contribute to the share capital of productive undertakings to induce small agriculturists and others to invest their savings in such undertakings.

The opening of new branches has been of use comparatively; but the banking facilities have not been freely availed of and it is not known whether it is due to the difficulties created by the bank or other causes beyond the control of the bank.

Written evidence of M.R. Ry. S. SRINIVASA AYYAR, Avargal,
B.A., L.T., M.R.A.S., Secretary, Nallampettai Co-operative
Building Society, Limited, Vellore.

1. Agricultural credit and credit facilities for small industries.

1 & 4. (The following observations are made as a result of nearly 15 years' experience in the co-operative movement and the difficulties experienced by the writer as a landholder in this district in finding credit accommodation.)

The agriculturist in this district (North Arcot) requires credit for two purposes: one for meeting current expenses of cultivation and land revenue and effecting small permanent improvements and the other for the discharge of prior debts. As both the needs of the cultivator are interdependent, it is proposed to deal with the two together. For, if an agency is established for providing credit facilities to meet current expenses only, the prior debtor who is generally a mortgagee gets a prior claim on the produce, and the current debt becomes unpaid on the due date. Ninety per cent of the agricultural population in this district are in a state of perpetual and chronic indebtedness. This debt is the accumulation of a generation, sometimes of two or more, and the debt would have originally been a small one incurred for a marriage or a funeral, in a time of famine or distress or for paying land revenue or effecting an agricultural improvement. But on account of heavy rates of interest, the ryot is not able to pay the interest even and the debt grows by interest and compound interest. If an arrangement could be devised by which every agriculturist could be advanced this accumulated debt of generations, repayable in easy instalments extending over a long period, it will certainly benefit the agriculturist and place agriculture on an efficient and sound basis. There is no agency now to relieve the agriculturist of this accumulated indebtedness, except a few joint stock banks. Co-operative banks relieve the agriculturist of a minor portion of his prior debts. As far as meeting the current expenses of cultivation, co-operative societies help the agriculturist, though not promptly. For capital and permanent improvements Government lends the agriculturist on easy terms. The Imperial Bank of India is not helping the agricultural classes. There are very few indigenous banks in this district unless it be a Nattukkottai Chetti from Chettinad or a Marwari from Northern India whom I would prefer to include under the term professional money-lender. The agriculturist is mainly at the mercy of the professional money-lender who, if he is a local man as oftentimes he is, has always an eye on the property.

The interest charged by a co-operative society is 9½ per cent, that by a joint stock bank working on the nidhi system is 7½ per cent on all kinds of loans. The indigenous banks and professional money-lenders usually charge from 12 to 24 per cent per annum. If the amount is sufficiently large and on the mortgage of property, one is able to get money at 9 per cent. When a loan is taken on the security of a standing crop, the rate of interest is as high as 75 per cent.

There is no protection to the agriculturist from the usurious money-lender. An all-India legislation is necessary fixing the maximum rate of interest and the total amount of interest that can accrue on a loan. Unless such a legislation is undertaken there is every chance of the land passing from the agriculturist into the hands of the capitalist as it now is.

The Imperial Bank of India is not playing any part in agricultural finance. Co-operative banks touch only the fringe of agricultural indebtedness and agricultural needs. As far as prior debts are concerned, co-operative societies can lend only Rs. 1,000 and the rate of interest is as high as 9½ per cent. Therefore, a middle-class landholder neither gets the necessary amount nor a low rate of interest from a co-operative society. Further a

residential qualification is insisted on for a person to become a member of a co-operative society. This prevents the educated classes from getting co-operative credit to finance their agricultural operations. Improvements in the methods of agriculture are not introduced for want of proper finance. Some of the joint stock banks especially those working on the 'midhi' system are doing very good work in accommodating the middle-class landholder with seven years' credit, the rate of interest being from 6½ to 7½ per cent. But such banks are not sufficient in number. Therefore, there is a strong need for a mortgage bank or agricultural bank in this province for the provision of long-term credit to agriculturists and landholders. One such bank for each Revenue district is sufficient. A few land mortgage banks that have been started under the Co-operative Societies Act are not doing very useful work.

The following scheme is suggested. A mortgage bank either on a co-operative or joint stock basis should be started for each district. Government should give a loan to it, the amount being at least three times the paid-up share capital. The shares of the bank should not be withdrawable but they should be placed on the same footing as the shares of the Imperial Bank or of any joint-stock bank. Government may raise a special loan for this purpose and lend it to these mortgage banks at a margin of a quarter per cent to meet its working expenses. Government may insist on adequate safeguards and supervision in these banks. Such banks will greatly benefit the landholders of this province. This scheme will facilitate the reduction of interest. Now in co-operative movement, a large percentage of over 4 per cent is charged towards working expenses. Co-operative banks do not pay the depositor more than 5½ per cent but the ryot is to pay 9½ per cent on the loans he receives through a co-operative society. In any scheme of banking a 4 per cent profit is too high. A mortgage bank's rate of interest should not exceed 7½ per cent. If one bank for each district is started, this would be possible. Its working capital should be largely derived from shares, deposits and loans from Government. An overdraft might be arranged with the Imperial Bank to meet the withdrawal of deposits. In this scheme no Government guarantee is necessary towards principal or interest of the share. Those joint-stock banks, working on the 'midhi' system which lend money only on the security of lands, are in a flourishing condition. The directorate of these mortgage banks should consist of people with sufficient stake in the bank and not borrowers as is generally the case with co-operative institutions. There should be a full-time paid secretary preferably of provincial service for these banks to ensure efficient working and continuity of policy. If Government really wants to benefit the agriculturist, it must take a prominent part in organizing these mortgage banks by which the agriculturist will be freed from his prior debts. The rural mortgage debt can be solved only by this method wherein local support and Government help are brought together. Interest on loans advanced by Government to these banks can be fixed at 6 per cent and the rate payable to depositors by these banks at 5 or 5½ per cent. The lending rate of these banks should not exceed 7½ per cent. This will ensure uniform and simple transactions.

There is no legal impediment to mortgage of lands and agricultural holdings in this district. The register of titles maintained by the Revenue Department needs improvement. Whenever a change is made by the Revenue Department, it must be made after sufficient notice and when once such a change is made, the entry in the Revenue registers should be a sufficient title of ownership of the land. Whenever the ownership of a land changes hand, the prospective owner should apply to the Revenue Department for a registry in his name and a title-deed. All such applications may be published once or twice a year on the notice board of the Taluk office, calling for objections, if any, from that date. If no objections are received, the title-deed should be issued to the applicant and the entry accordingly made. If there be objections, the matter should be left to courts of law to decide and the entry made after the courts' decision. What is desired is that the record maintained by the Revenue Department should be legally binding on all people and the title-deeds issued should give all rights to the owner of the land. If necessary, any laws of the land may be suitably amended. Such a procedure will avoid unnecessary and harassing legislation and will place the landholders and the tenants in a contented condition. Now,

Title-deeds or *pattas* for lands are issued only once every revenue settlement. *I.e.*, once in every thirty years, but they should be issued every time a registry is altered in the records of the Revenue Department.

3. Value of land per acre in this district varies from Rs. 50 to Rs. 2,000. Wet lands fetch more price than dry lands. Lands which can be irrigated from a well in drought are the costliest. Good lands are never allowed to be sold in Government auction. In Government auction value of land is practically nil. In sale by court decree value is 25 per cent less than in sale by private negotiation.

5. The existing indebtedness of the agricultural classes can be roughly put at seven times the land revenue of each village. In general, the indebtedness may be put at twice the dues to a co-operative society in villages where co-operative societies exist.

* Seventy-five per cent of the indebtedness of an agriculturist is with land as security by a registered mortgage and 25 per cent with other assets such as village house, ornaments, etc., as security. In this district no debt is concealed in the form of a judicial sale. As has been already pointed out, these debts were originally incurred for marriage and other social occasions or in famine times, but the main part is due to the growth of the debt by compound interest, interest not being paid on account of usurious rates. In places where co-operative societies are doing good work half this debt is due to a co-operative society and the other half to professional money-lenders. A small fraction is due to joint-stock banks.

The rates of interest on mortgages vary from 9 per cent to 12 per cent per annum. On promissory-notes it varies from 12 to 36 per cent per annum. Landed property is certainly passing into the hands of creditors and a large number of people who are efficient farmers are being turned out. One need only instance the case of minor *inams* of village artisans and very few of these landholdings are with these artisans now.

7. Imperial Bank of India allows an overdraft to the Co-operative Central Banks. There is no relation between the joint-stock bank and the co-operative society. Imperial Bank feels shy of supporting a joint-stock bank. Co-operative societies find it difficult to get finances for long-term loans. They have got more capital than necessary for short-term loans. As long as co-operative societies are worked under present limitations no extra capital is required for this movement. There is no competition between a co-operative bank and a joint-stock bank. But a joint-stock bank worked on the *nidhi* system is doing more useful work in relieving agricultural indebtedness than a co-operative bank. As pointed out elsewhere, a co-operative society benefits only a small landholder to the extent of Rs. 500 or Rs. 1,000. It does not benefit the cultivating ryot as very few loans are advanced on personal security by co-operative societies. Thus the professional money-lender has his sway over the rich and the poor alike. Unless and until a mortgage bank is organized, there is no salvation to the promising agriculturist. The function of a co-operative society should be limited to finance cultivation expenses, domestic needs and small mortgage debts (within five hundred rupees and repayable in five years) and the other mortgage debts should be financed by a district mortgage bank.

II.—Indigenous banking.

Unless the rate of interest is fixed by law in indigenous banks they will not be of any benefit to the agricultural classes. The Nattukkottai Chetti has ruined many a home and disorganized the peasantry to a large extent. There is a strong prejudice against this kind of bankers. They are no better than professional money-lenders. It is the agriculturist that requires protection from these bankers and not the bankers. Their usual lending rate is 18 per cent but their pro-notes are generally taken at 24 or 36 per cent. The courts allow interest at the rates mentioned in the pro-note. Such a system should not be tolerated by any civilized Government. Money is never lying idle with these bankers. On the other hand, they borrow from the Imperial Bank and others and carry on their usurious business.

III.—Investment habit and attraction of capital.

2. Postal cash certificates are popular with the educated classes but has not yet reached the masses. Propaganda work is necessary in this direction. The present rate requires revision and the original rate of ~~Rs. 10~~ or Rs. 10 can be usefully adopted.

Savings bank does not afford all possible facilities. If a system could be devised by which interest can be allowed on daily balances, it will give better facilities to the public. Savings bank in co-operative and joint-stock banks are more popular than that of Post Office. There is no competition between Government and other banks; the Government rates are not more attractive for most of the other banks allow the same rate for a five years' deposit. Co-operative banks give the same rate of 5½ per cent even for a two years' deposit.

3. Farmers generally lend to fellow farmers, the rate of interest is generally 12 per cent. When the lender is in need, the borrower borrows it from a professional money-lender and pays the lender farmer.

If a vigorous propaganda is made towards Government loans, a larger amount will be subscribed by the agriculturists.

Written evidence of M.R.Ry. Rao Sahib S. THIRUMALAI
 APPANGAR Avargal, B A, President, Srirangam Janopakara
 Nidhi, Ltd., Srirangam.

II.—Indigenous banking.

1. The functions of the indigenous bank or bankers in this district are to obtain funds at low rates of interest and to lend them at higher rates to the subscribers and others.

2. So far as known, there are the following indigenous banks or bankers in this district:—

A Nidhi at Srirangam.

A Nidhi at Tennore.

Varthaga Sangam at Trichinopoly.

Commercial Bank at Woraiyur.

Some Nattukkottai Chettis and some private bankers doing banking business.

The two Nidhis are working on more or less the same lines. Their objects, as stated in the Articles of the Association, are—

to enable persons to save money; and

to secure for the members of the Nidhi loans at favourable rates of interest on the security of immovable properties, of Government pro-notes, on jewels, etc. The capital necessary for the purpose is raised (1) by monthly subscriptions from members for 32—45—84 months according to the class of shares held by them; and (2) by deposits from the shareholders and others.

The private bankers put in their own funds or get funds from the Imperial Bank or other banks. The institutions, including the private bankers, situated as they are in towns, are resorted to by townspeople, consisting of employees under Government or Railway or similar body and petty tradesmen. They do very little in the way of assisting in financing agriculture, but petty traders are benefited to some extent—industry is helped very little. The Varthaga Sangam and the Woraiyur Commercial Bank are perhaps helping trade and industry to a larger extent than the Nidhis.

3. It has been said above how capital is obtained. So far as the Srirangam Nidhi is concerned, the following figures will show the volume of business now on hand:—

	RS.						
(a) Deposits	70,645
Subscriptions	1,89,124
							<hr/> 2,59,769
(b) Loans P.L.	1,27,602
Temporary loan	1,28,380
							<hr/> 2,55,982
(c) Expenses per year—							
Interest	11,500
Establishment roughly	3,300

(d) So far as this Nidhi is concerned, it is working independently of other indigenous banks and has no financial relationship with any of them. However, it invests its surplus funds in current accounts in the Urban Co-operative Bank at Trichinopoly. The other indigenous bank and bankers seem to have dealings with Imperial or other joint-stock or co-operative banks.

4. No hundis are in use in the Nidhi. We use credit notes for receipt of money and money orders for payment of money and also cheques. Specimen forms of these are attached.

5. Loans are granted on the security of immovable property, such as houses or lands, of jewels, of deposits in the Nidhi itself. These loans are repayable with interest in monthly instalments or within certain fixed periods. Rates of interest allowed on deposits are 3½ per cent on current deposits, 5 per cent and 6 per cent on fixed deposits and 7½ per cent on security deposits.

6. It has been already stated that the agricultural community do not form their clientele, but, from enquiries, it is understood that private bankers to whom agriculturists resort charge from 12 to 18 per cent on the loans. These high rates can be brought down by the establishment of small banks within easy reach of the villagers and by granting seasonal loans according to necessity and recovering them during harvest or other time. Perhaps if co-operative societies are formed in rural areas and they are empowered to give loans on agricultural produce, the produce being taken possession of at the time of the loans and sold at the proper time and the sale-proceeds credited towards the loans, the agricultural community will be benefited. The marketing should be on co-operative basis.

7. There is no prejudice against indigenous banking institution or banker. The Nidhi at Surangam has been in existence for the last 38 years and the one at Tennore for about half a century. As for business being conducted on sound lines, we can say, so far as this Nidhi is concerned, it is being done on sound lines. The same may be presumed as regards the Tennore Fund also, judging from its continued working for so long a period as half a century. Not knowing anything about the others, we can venture no opinion.

8. The status of the Nidhis under the Indian Companies Act seems to contravene or rather is not consistent with certain provisions of the Act and the question has been raised and is under the consideration of the Government of India as to the nature of the action to be taken. Within the range in which they are working, the Nidhis have been doing very useful work for such a long time and their position should be clearly affirmed by recognizing under the Act their present methods of work.

9. The net return can be seen from the following figures —

	Rs.	A.	P.
54th period from 1st March 1927 to 31st October 1927 ...	5,291	0	3
55th " from 1st November 1927 to 30th June 1928 ..	2,574	9	3
56th " from 1st July 1928 to 28th February 1929 ...	4,423	1	4

10. We are able to meet the demands of our clientele with the funds at our disposal. Accommodation has not been refused for want of funds, but occasionally owing to insufficiency of the security offered.

11. We have got in our midst enough banks with which the indigenous banks can link themselves when necessity arises and there is no need for the establishment of any fresh institution to link them with.

SRIRANGAM JANOPAKARA NIDHI (LIMITED).

CREDIT NOTE.

No. _____ Dated 19 Srirangam.

Please Receive from _____

the sum of Rs. _____ As. — — Ps — — Rupees _____

and credit the same to the following account

HEAD OF ACCOUNT.

Deduction.
Paid refund of interest.
RS. A. P.

Signature.

Rs. _____

Treasurer.

Secretary.

SRIRANGAM JANOPAKARA
NIDHI (LIMITED).

MONEY ORDER.

No.

Srirangam, 19 .

Granted to _____

General No. _____

Rs. _____

Head of Account. Deduction.

Net amount payable Rs.

Secretary.

SRIRANGAM JANOPAKARA NIDHI
(LIMITED).

MONEY ORDER.

No.

Srirangam, 19 .

Please pay to _____

General No. _____

the sum of Rs. _____

on the following account subject to the deductions
noted below.

Head of Account Deduction.

Contents paid. Contents received. Net amount
payable Rs.

Treasurer.

Secretary.

**Written evidence of J. GNANAMUTHU, Esq., B.A., L.T.,
Secretary, "The Woriur Commercial Bank, Ltd.,"
Trichinopoly.**

With reference to the questionnaire circulated to the Banking Companies, I beg to submit that the Woriur Commercial Bank, Ltd., is an indigenous institution and therefore I shall deal with the second part of the printed matter.

The objects of this bank are—

- (a) to enable persons to save money,
- (b) to secure loans at a favourable rate of interest on the security of immovable property, of jewels, of Government Promissory notes and of one or two or more approvable personal securities,
- (c) and to do all such other things as are incidental or conducive to the attainment of the above objects.

Capital.

The nominal capital of the Association is Rs. 4,74,968 divided into 3,500 'B' class shares of Rs. 90 each, to be paid in monthly instalments of Rs. 2 and 952 'A' class shares of Rs. 84 each payable in 84 instalments of Re. 1 each, and paid-up shares of 2,000 of Rs. 10 each, 500 of Rs. 50 each and 350 of Rs. 100 each, with power to increase its capital.

Questionnaire—Indigenous banking.

1. This Company aids its members to save money by monthly subscriptions and, at the expiry of the stipulated period, the amount subscribed for, with interest at the rate of one pie per rupee per mensem and any proportionate additional profit accrued till the term is paid in a lump.

Loans are also advanced on the shares and adjusted at the end of the term. Temporary loans are also given on the paid-up subscriptions, on jewels and on immovable property mortgaged for short periods.

2. Ryots, traders and women, etc., have monetary transactions in the Bank, as subscribers, shareholders, depositors or loan-drawers.

3. (a) The capital is increased from time to time and it is merely nominal. The present registered capital is Rs. 4,74,968.

(b) and (c) Vide Report * attached for the 47th period ended 28th February 1929.

(d) This bank exists by itself, i.e., independent, subject to the audit of an auditor certified by the Government and to the approval of the Registrar of Joint-stock Companies to whom alterations of rules and resolutions of the general body of subscribers with the periodical balance-sheet, etc., are sent.

4. No business of a commission nature, hundi system, is done by this bank.

5. Deposits are received at the following rates:—

- 3½ per cent on current deposits,
- 5 per cent on deposits for six months,
- 6 per cent on deposits for one year.

6. Guaranteed interests are allowed at 7½ per cent on paid-up shares and 6½ per cent for term shares.

Loans are granted on paid-up subscription and on deposits at Re. 0-10-5 per Rs. 100, and on jewel mortgages at Re. 0-12-8 per Rs. 100 per mensem for members and at Re. 0-14-7 per Rs. 100 per mensem for non-members.

7. No prejudice of any kind exists against indigenous bankers. The business is conducted on sound lines regulated by a managing committee and periodical meetings of the general body. The indigenous banking corporations have to pay the office bearers of the company and also the ordinary directors a remuneration and also the bank has to pay income-tax at the rate of Re. 0-1-6 per rupee to the Government, while the co-operative banks receive money at low rate of interest and advance loans almost at the same rate as the indigenous banks do. No income-tax is levied on the profits of co-operative banks.

The employees in co-operative banks are all paid liberal salaries and honoraria and their expenses generally run very high. The loans are alleged to be granted on the worth of the property without documents and with free registration. It is hard for indigenous institutions to cope with the co-operative banks, who conduct business even in small villages with such advantages. It is believed that the loans granted by the co-operative banks cannot wholly be recovered unless the Government Revenue officers interfere and adopt coercive measures to collect the arrears: if the present privileges are withdrawn, the banks will prove a failure. Loans for long periods, say, more than 10 years, is a curse to the posterity in several instances.

8. The bank could be made more serviceable to the community if the Government is pleased to lend money at the time of need at 4 per cent per annum, which would be returned by annual or half-yearly instalments and if the imposition of income-tax on indigenous banks is wholly removed.

9. The net profits are wholly participated by its members, after having set apart one-sixteenth of it to the Reserve Fund.

10. This bank is at present able to accommodate all demands: in case of necessity, the Government must be prepared to advance loans at a lower rate.

11. It is suggested to have a central reserve bank, consisting of a member to represent each banking corporation with a few official members, and they must meet at least once a quarter to hear the report and requirements of each company. They must be empowered to advance money as in the case of co-operative banks and adjust the local demands and inconveniences. The indigenous bankers should co-operate with the District Central Bank.

12. The indigenous bankers may have on occasions more money on hand during the dull season; but generally they are just able to carry on the daily transactions. If the central bank is established, any surplus money may be sent to it, and it might be returned when demanded.

**Written evidence of M.R.Ey. S. P. RAJAMANIKKA
PANDARAM Avargal, President, Taluk Board,
Salem.**

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturists mostly obtain finances (a) for expenses during cultivation from professional money-lenders on promissory notes and when large amounts are required on mortgage of immovable properties with interest ranging from 12 to 24 per cent; mortgage of crops is very rare; (b) for capital and permanent improvements they apply for State loans on the mortgage of the lands to be improved and on other collateral securities, at 6½ per cent or 7½ per cent; if they fail to get State loans, they generally go to professional money-lenders who charge interest at 12 to 18 per cent according to the circumstances of the case; (c) for other special needs, namely, failure of monsoon, for land revenue, etc., they sell away the produce reserved for seeds, etc., or borrow from the co-operative societies, if one exists, or from money-lenders or merchants at interest varying from 9 per cent to 18 per cent. Generally, the agriculturists do not borrow from the Imperial Bank of India, the joint-stock banks, the indigenous banks and bankers, etc. The amount of capital that may be required for the various purposes in this district is about 20 lakhs.

Under the existing system, many agriculturists have been ruined by borrowing money from professional money-lenders and others at exorbitant rates of interest with the hope that they could repay if there is favourable monsoon, etc. But these expectations are seldom fulfilled with the result that they have to sell away their property to the mortgagor. The remedy that suggests to me is that the Government or big capitalists should come forward to help the ryots by giving them the necessary amounts for agricultural purposes on a cheaper rate of interest, ranging from 4½ to 6½ per cent and with long terms for their repayment. In order to safeguard the interests of the capitalists, it should also be made a condition necessary in paying loans that a minimum percentage of the produce got from the lands should be given away in repayment of the loan. It should also be legalized that amounts borrowed for agricultural purposes to be a first charge on the land as it is now the case in payment of land revenue. The present co-operative system handicaps the ryots generally and is not what was expected originally. The grant of State loans should be more liberal and the conditions of repayment and the charge of penal interest should be relaxed.

2. The principal crops are now marketed in central places in towns and in other centres in the district. There are commission agents called 'Tharagu mandies' in each place. The products brought by the agriculturists are put to auction and these commission agents bid for them under a compact formed within them. Others who are not parties to that compact are not allowed to bid; but they have to purchase them from these agents or merchants. These commission merchants send them to the merchants or dealers. By this arrangement, these commission agents get more profits than the agriculturists and the merchants or dealers. Thus, the agriculturist is in a very disadvantageous position and his labours are enjoyed by the middlemen. In order to remedy these defects, the Government should organize trading co-operative societies (to be worked by officials with constant supervision and check) with restrictions that each agriculturist should deposit the produce in the banks and receive money at a certain per cent discount according to the prevailing market value which should be intimated to each society by the authorities concerned. When the society realizes the full value of the produce so deposited, it should pay the agriculturists that balance that is due to him after deducting interest on the amount first paid and other incidental charges, if any. There should be at least one such co-operative society for each taluk or more according to the local requirements. These co-operative societies should sell the products to the merchants or dealers or firms, etc. The other suggestions contained in the questionnaire do not commend themselves to me.

3. The value of the land per acre for different kinds of crops vary in each place in the district. The value depends upon the amount of labour that is available in each place and also on the richness of the soil. The price of wet lands and garden lands are valued more. Dry lands for sowing of groundnut or cotton have better value than other dry lands. Further, value is enhanced if there are competitors to purchase it or otherwise the land is sold to a nominal price.

(a) Generally when lands are sold for arrears of revenue, competitions are very rare and they are sold just to cover up the amount of land revenue arrears due to Government.

(b) Lands put to court auction in the execution of decrees are in most cases knocked down by the decree-holders and competitions in such cases are very rare.

(c) Purchase by private negotiations is, no doubt, better than the above two items. Even in this case, if there is no competition the price will be only nominal. As already observed, the loans raised by agriculturists on the mortgage of their lands mostly remain unpaid for a number of years in the result that the land is sold to the mortgagor for the principal and interest due. If the agriculturist has no other lands to cultivate, naturally he becomes a tenant under the mortgagor. But the experience of the past six years in this district shows that the agriculturist sells away the land to the mortgagor and emigrates to Ceylon, Straits Settlements and other far-off places, to earn his livelihood by dint of hard labour.

4. There are no land-mortgage banks or purely agricultural banks in this district so far as I know I have already dealt with this point in paragraph 1 supra.

5. Accurate figures of indebtedness can be gathered through the medium of subregistry offices, where copies of registered documents are available and through the village officers who are in most cases the document writers. I leave the other questions to be dealt with by men of more experience in the field.

Written evidence of M.R.Ry. MODALAVALASA POI NAIDU
Garu, Inamdar and Member of the District Board,
Modalaivalasa, Dusi R. S., Vizagapatam
district.

With reference to your questionnaire regarding some problems about provincial banking, dated 27th August 1929, I have the honour to submit my views on some of the problems dealt hereunder.

1.—Agricultural credit and credit facilities for small industries.

1. Agriculture is the main occupation of a very large body of people in the Revenue division of Vizianagram with which I am more familiar. The agriculturists are generally poor, being very much oppressed by the landlords, and they borrow their monies from ordinary money-lenders for their expenses during cultivation season. The money-lenders, who are generally very greedy and unscrupulous, advance small loans with short intervals for payment, at very high rates of interest, viz., 18 per cent to 24 per cent with compound interest, taking the crops which the agriculturists raise as security for the loans. In some extreme cases, the money-lenders themselves, according to their sweet will and pleasure, determine the prices of the various crops raised by the agriculturists, even at the time of advancing loans, and collect the produce immediately after the crops were ready for harvesting. So much so, the agriculturists who borrow money for their expenses in the cultivation season are obliged to part with a large quantity of the product for discharging the debt. The remaining produce would in certain cases be hardly sufficient to cover the rents payable to the landlords. Hence the agriculturists are always at the mercy of the money-lender:

The agriculturists in this division are generally owners of parcels of some estate lands. As such, they possess and enjoy occupancy rights in the same. They have not the means of making any permanent improvements for their lands and even in cases where some forward ryots offer to make improvements, the proprietors and zamindars would never give them a chance to make the necessary improvements. Moreover, the agriculturists here will not be able to realize the fullest advantages of such improvements owing to the harsh treatment from the officials of the proprietors.

The agriculturists actually starve in cases of failure of monsoon and some of them leave the parts for good for places like Rangoon, Moulmein, Singapore and Assam, leaving their lands and places of abode. As far as I can see, the majority of the ryot population always borrow money for the payment of their kist to the proprietors, owing to the fact of proprietors collecting their kist even before the commencement of the transplantation season. This is a very serious and touching grievance of the ryots of these parts; but, to their greatest misfortune, they are not able to get the ordinary justice either from the proprietors or through the court. This is felt all the more on account of the fact that the ryots in these parts are very hardworking people with few wants and leading the simplest life possible. In all cases of failure of monsoon, the ryots generally mortgage their holdings and other inam lands to money-lenders and in certain cases they lose their property altogether.

Much of the above difficulty is mainly due to the fact that the proprietors hardly take genuine interest in the ryot population. They care more for their revenue and try to extract even the last pie from the ryots by putting them to all sorts of difficulties. Secondly, this unfortunate state of affairs is also due to the absence of other occupations or home industries or other sources of income for these ryots. Thirdly, the rents payable to the zamindar or proprietor is very high. It will be about Rs. 25 per acre of wet land and Rs. 4 for dry land. As far as I can see, it is only in Bobbili and Siripuram estates that such high rates prevail. In the adjoining estate of Vizianagram the rent payable on an acre of wet land with the best facilities for irrigation is about Rs. 6 to Rs. 12.

In this connexion it may be said that the object of the Government in trying to furnish facilities for agricultural loans at low rates of interest is not at all fulfilled. It is very rarely that the taluk officers oblige the ryots by giving agricultural loans, perhaps due to the cumbrous procedure to be adopted for the purpose. The Government is not properly insisting on the officials to see that the sums allotted to various taluks are easily distributed among the ryots on conditions of easy payments by instalments.

The co-operative banks recently started in these parts are not also advantageous to the agriculturists owing to the absence of good amount of capital, heavy interest and the absence of facilities for easy payments by instalments.

Although I am not a professional man acquainted with the estimates for the various purposes mentioned below, I think a sum of Rs. 10,00,000 (ten lakhs) is absolutely necessary for construction of two anicuts—one at Guttavolu in Palkonda taluk and the other at Etikoppaka in Golugonda taluk. These two anicuts are to be constructed across the Nagavali or Langulya river in the east and the Varaha river in the west of this district, which are about 250 yards and 150 yards in width respectively at the places mentioned above. By constructing an anicut at Guttavilli and by supplying the water of the said river to the adjoining lands, nearly 10,000 acres of wet land in Ganjam district can easily be irrigated with the said water. By constructing an anicut at Etikoppaka, an equal extent of land can be irrigated.

Many of the defects mentioned above are *due to the absence of facilities for irrigation*. A large area of wet land is purely dependent upon the tanks and the river channels. The proprietors, who generally take little or no interest in the ryot population, neglect to make any substantial repairs to the various tanks and also neglect to supply water through the channels from the river. The duty or the right of supplying water from the river to the wet fields through the channels is always the monopoly of the proprietor, without whose permission even a drop of water will not be allowed to be touched. The proprietors generally take their own time to supply the said water to the ryots. The powers conferred on the ryots under the Estates Land Act under chapter VII are very rarely exercised by them on account of the difficulties of the ryots in obtaining the necessary sanction of the District Collector in the proper season.

The absence of improved methods of agriculture is another drawback in these parts. The agriculturists use their own patterned implements for cultivation owing to their poverty and do not know the advantages of the artificial manures. The Government should try to open a larger number of Agricultural farms, giving easy scope for obtaining knowledge about improved methods of agriculture. The Government should also make arrangements for the supply of agricultural implements and artificial manures on easy and convenient terms to the ryots.

The absence of metalled roads between various village and the market is another grievance in these parts. The difficulty is more felt on account of the fact that agriculturists, who produce various kinds of grains, sugarcane, etc., on a large scale, are not able to send them to the nearest market without incurring unusual and heavy expenses for transport.

The absence of extensive pasture lands, absolutely required for the upkeep of cattle, is another grievance which has to be redressed. The agriculturists should be educated in the direction of maintaining the high breed of cattle.

There are very few commercial centres or market centres in the district, and there are various foreign firms who purchase and export the various grains and produce to other parts of the country. Some of them who are money-lenders to these agriculturists compel them to give a large percentage of discount on the ground of the expense for transport.

2. If the Government make the necessary arrangements for opening co-operative societies throughout the district, for the purpose of receiving all the produce raised by the agriculturists and for the distribution of the

same, and for quick payment of the price money to the ryots, those very same societies might be made to lend money at low rates of interest to the ryot population. This would protect the ryots from the clutches of the middlemen or commission agents.

3. A wet land on which paddy and ragi are raised is worth Rs. 400 to Rs. 600 per acre.

A wet land on which sugarcane is raised is worth Rs. 600 to Rs. 700 per acre. Dry land on which other minor crops are raised is worth Rs. 200 to Rs. 300.

(a) In Government auction lands are sold away at cheap rates according to the arrears which accrued on the soil.

(b) In a court-sale also the lands are sold away for about one-third the normal value.

4. Land mortgage banks do not exist in our parts.

With regard to records of rights, one feature in this district is that the Vizianagram zamindari and the three Government taluks are alone surveyed. The remaining area, which is more than 20,000 square miles, is unsurveyed and there is absolutely no safety as to title and ownership in cases of dispute. Secondly, the practice obtaining in the Government taluks of registering all transfers of immovable property and of transferring title-deeds immediately in the offices of registration is not observed in the zamindari areas. Unless this defect is remedied, peaceful enjoyment of immovable properties becomes impossible.

I have no objection to be examined orally.

**Written evidence of M.R.Ry. A. SRINIVASACHARIAR
Avargal, Pleader and Secretary. Co-operative Banking
Union, Ltd., Srivilliputtur.**

I. Agricultural credit and credit facilities for small industries.

1. The agriculturist in my district obtains finance in following manner:—

For expenses of cultivation in successive stages, he requires finance (1) for manuring fields by storing rubbish, (2) for growing manure shrubs, (3) for ploughing, (4) for purchasing seeds, (5) for sowing, (6) for transplanting, (7) for weeding out seedlings, (8) for using green manures, (9) for watering and (10) for harvesting crops. The 'agriculturist' is a general term. It may include the following persons:—(i) Owners of lands, (ii) tenants who are themselves tillers of the soil and actually working in the fields and (iii) lessees who take to cultivation as a profession but subject to the labourers. The method of obtaining finance varies with different sets of persons. In the case of owners who cultivate by hiring labour on *panni* system or periodical labour, if any, (i) they sell their produce at the market rate when they feel the necessity; (ii) if at the time of need there is no market, they get loans from local sowcars at high rate of interest—from 12 to 18 per cent; (iii) if there be a local co-operative society, they resort to it, but generally they do not get it in the required season; (iv) so they promise to pay grain interest payable at the time of harvest which at times exceeds 36 per cent.

In the case of tenants and lessees they borrow from the landlords on the following conditions:—

(A) The amount borrowed may be taken back at the time of harvest when the owner takes the paddy from the threshing-floor. The owners do take payments on the threshing-floor. This is done in the villages where the actual cultivators intimate the owners on the day of harvest and special men are deputed to control as *kanganam*, who, after crops are cut, gathered and paddy grain stored, heap them up and intimate the fact to the owners. The latter then go to the threshing-floor, measure the paddy and bring home the varam or lease produce and the corresponding quantity of grains for the loans, i.e., cash given.

For sowing the tenants either purchase seeds from other landlords for cash or for periods payable in harvest, or from the owners (landlords) themselves on condition of repaying the same during the harvest. For watering also, labour is hired on condition of paying labourers at the time of harvest, and produce is given in fixed quantities for cutting, gathering, etc. The tenants settle rates of payment of produce according to the area of harvest and this coolie also is paid on the threshing-floor even before the landlord comes for measuring and for taking the grains home.

(B) For capital and permanent expenses only the agriculturist owner has to spend. Here, again, he applies for loan to a local co-operative society which has its own by-laws and which are not commensurable with the requirements or needs of the agriculturist in point of amount of loan, period or capacity to repay or kind of payment. The co-operative society fixes periods far shorter than the required time or pays a lower amount than the purpose needs. In either case, the agriculturist does not get financial help suitable to his need or repaying capacity.

• (C) For special loans, i.e., failure of monsoon, land revenue, etc.—Here also he resorts to the co-operative society, sowcar, or joint-stock companies and midhis. By mortgaging his property he gets loans; if he mortgages to a village sowcar, he is unable to repay in the stipulated periods, which are one year, three years or five years, and he cannot even pay interest annually. His ordinary expenses and old debts pinch him and his income from land or other sources are too small to repay in full, so that the load of debt is increasing or swelling until at last the mortgagee goes to court

and brings the property to sale where, according to exigencies of the time, even the decreed debt is not fully satisfied and for balance of decreed amount his other properties are proceeded against.

The rates of interest charged in my district vary from 18 to 30 per cent if in cash or 50 per cent if in kind. Generally the periods for which advances are paid are six months, i.e., harvest seasons as stated already. ~~Monthly~~ no security is given or accepted except in the case of ordinary money-lenders who get promissory notes for such short-term loans. In a few cases, jewels are also pledged as security and cash obtained. The Government intend to help the ryots by giving takavi loans, but the manner in which it is given is not satisfactory. Such loan is given for (i) purchase of cattle, (ii) sinking of wells and not for any other purposes. Though there are other purposes, such as cultivation expenses or repair of lands by lowering the level or land revenue, the Government does not offer any help. Even in the matter of such loans being given, various exigencies arise and the ryot is disgusted with it. It is necessary that for short-term purposes as well as other long-term needs, such loan should be extended and the ordinary revenue inspectors or periodical special officers alone would not do. The Sub-Collector or the Revenue Divisional Officers should themselves look to this kind of loans from the start up to the actual payment of loans or the special officer should be of that grade.

The joint-stock banks, i.e., nidhis, help very little the agriculturists. Firstly, according to capital subscribed, and after a fixed period of membership alone, loans are given, and that on security or mortgage of the property, repayable in seven years at 6 per cent per annum. The rate of interest is certainly very low and favourable, but here again the appraising staff, the encumbrance certificate and other contingent expenses turn out to be a burden on the borrower. Co-operative banks do really serve agriculturists for short-term purposes. But other long-term requirements are not attended to. The attempt of present-day co-operative banks to satisfy other agricultural needs has been a failure, and this is the main cause for deterioration of the co-operative movement and the increasing debt of the agriculturists.

Indigenous banks and bankers do not care much about the season of repayment or the purpose of loan. What they care for is only the security. Such banks or bankers are very few; I may say, except the Indian Bank, we have none else here.

Professional money-lenders do not help agriculture because no suitable period is fixed for repayment and when money-lenders require money, they begin to press agricultural borrowers who suffer consequently.

Merchants and dealers act as commission agents for sale of produce; either they stock the produce on a fixed value or act as agencies for selling to customers at a favourable rate. Other organizations giving credit here are few or none and I have no experience in this sphere. The capital required for (a) cultivation expenses is Rs. 20 or Rs. 25 per acre; (b) for capital and permanent improvement Rs. 500 for a landholder of 10 acres of land; and (c) for failure of monsoon and land revenue Rs. 120 for a landholder owning 10 acres of land (wet). There is absolutely no co-ordination among the various agencies, nor can there be any such. Each has got its own interests to serve and in some case conflicting also. Money-lenders will never co-ordinate with the Government who is taxing them for real or unreal incomes purely on estimates. The co-operative banks have been crying hoarse for co-ordination of the Government takavi loans, but not cared for by the Government. There is ample scope for improvement. All registered joint-stock banks, co-operative banks and Government may work in co-ordination and the money-lenders and indigenous private bankers may co-ordinate not only in the interests of agriculturists but in their own interests also. By co-ordination and collaboration these agencies may secure the business and the agriculturist may be sure of their resources or terms of repayment, etc.

The defects that exist now are: (i) in the case of co-operative banks, short-term loans are only given and long-term needs are not served at all. Because deposits in central banks are for short periods of three to five years alone, longer periods cannot be given for repayment of loans. The period

of repayment for long-term needs is too short to admit of punctuality or of economic improvement for the villager periods exceeding 25 to 30 years should be given for capital and permanent expenses and other special needs mentioned in I.C. ; land-banks should be established, as near as possible, by the villagers themselves ; (i) the centre selected should be a taluk or two taluks ; (ii) no capital should be demanded of the villagers for starting these banks by way of contribution or debentures from themselves ; (iii) the Government should issue agricultural loans or takavi loans to villagers through these banks or set apart a definite proportion of land revenue every year *talukwar* to be disbursed through these banks. In the case of joint-stock banks or other registered indigenous banks no attention is paid to purpose of loan, nor is any staff maintained for supervision, control or collection of loans. The reason is, they care more for profits for themselves than for profit for customers or constituents. Even here unless purpose or period of repayment is considered, their business also will not thrive and will not bring profit to themselves.

2. The principal crops are marketed by commission agents and taken to centres where there is a great demand for the same. The small margin between the purchase and sale money is the commission fees for the agent. He either pays at first the owner in lump or after sale in the centre pays the owner. The consumers also directly go to villages, to the very doors of owners who have stored the grains in their homes. According to the quality prices are fixed and paddy or other grains are taken for cash payment. To my mind it is not possible to form pools now as co-operative effort is attended with risks which the owners of produce are not prepared to undergo at this stage.

In marketing the produce the credit facilities required are (i) advance of loans on pledge of produce (ii) security of produce marketed, (iii) good management ; none such exist now. Special godowns should be provided by the Government.

For internal remittance, existing facilities available to the public other than banks or bankers are little or nothing. 'Hundis' or chittas are the only methods by which merchants have internal remittance of trade. The co-operative banks have remittances through sub-treasuries by cash orders or remittance transfer receipts. The defects in the existing system are— (i) the minimum limit of Rs. 150 and (ii) the remittance being restricted to societies *inter se*. The minimum limit should be removed and remittance allowed from one district to another and the bank to which remittances are made should be co-operative. The remitter need not be a co-operative agency.

As between private persons or firms or merchants, cash orders or remittance transfer receipts should be allowed at a favourable commission or premium. Till then, banking habit cannot be cultivated and security of money or facility in trade cannot be said to be given to the public.

As regards marketing in general, the Government should encourage freely special *godowns* being built up and insured against fire and inducing agriculturists to pool the produce together. The quality of produce or grains will vary from one agriculturist to another and consequently the prices also may vary. Sufficient safeguards are necessary to preserve each man's produce. Though much is talked about loan and sale societies or pledge of produce, it is not practically shown by any non-credit co-operative officer how the system can be worked out successfully. Unless the Agricultural department and Co-operative department co-ordinate and find out means, no remedy worth the name is possible in this direction. In non-credit side, agriculture is the main stay for ryots and the co-operative movement may first bestow its attention upon this. The Government should endeavour its best to give this relief.

3. Value of land per acre for wet lands varies from Rs. 20 to Rs. 10 according to the quality and ayacut of land. In tank ayacuts whose supply of water is sure and certain, the highest value is paid, and for other ayacuts it varies with the quality. (2) For dry lands, punjas, where dry crops are cultivated, the value varies from Rs. 5 to Re. 1 as according to the quality and water source which is generally wells in the lands. (3) For garden lands, which yield betel and vegetables and other varieties, the

value varies from Rs. 8 to Rs. 4. The factors that affect the value are in case of wet lands, (i) facility or irrigation, (ii) source of supply of water, (iii) nature of soil which does not require external manuring, (iv) proximity to habitations of labourers or professional lessees, (v) the facility of traffic for marketing the produce; and in case of dry lands, (i) the nature of crops which grow luxuriantly on the land, (ii) the springs in wells in lands, (iii) the value of crops that grow in the fields. Over and above these points, the most important factors are the necessities of the owner who sells the land and the publicity given to sales; (a) in case of Government auction for non-payment of revenue, value will be very low, as village officers alone have full knowledge, as also in cases of court decrees where proclamation is only nominal and the land sold will be ordinarily heavily burdened with prior encumbrances which scare away purchasers and consequently value also lower. But in case of private negotiations, there is competition in the open field and the owner has the advantage. There is one other factor not mentioned in the questionnaire, i.e., land acquisitions. The value in such cases is higher than private negotiations because over and above the statutory commission charges under the Act and the adjacent value of lands, the loss that will accrue to the owner, which in some cases are imaginary, go to enhance the value which is provided under the Act.

4. There is no legal impediment to mortgage of lands and agricultural holdings. There are one or two land mortgage banks in the province for long-term credit. I have no intimate knowledge of the method of work, but I know they raise capital from shareholders and by debentures. A separate Central Provincial Land Mortgage Bank with branches in different centres of taluk is a great desideratum. These primary land-banks should supply long-term credit to villagers and provincial land banks should supply finance when and where necessary to primaries just as the Apex Bank (M.C.U.B.) supplies finance to local central banks by getting debentures. In other words, the village co-operative societies, district central banks and the Apex Bank (M.C.U.B.) will be the chain of institutions for short-term needs, for periods up to five or six years; the primary land banks and the provincial land mortgage bank will serve the long-term needs up to 30 years. This system will be satisfactory to tenants and landholders alike. The working capital of the proposed land mortgage bank should be derived largely from (i) funds from central institutions and debenture bonds. Deposits cannot play any part as their duration will not be commensurate with the purpose of land mortgage banks. The only adequate provision for long-term credit is the scheme evolved by the Hon'ble Mr. V. Ramadas Pantulu Garu and published broadcast by the Madras Provincial Union, as reprinted from the *Treveri*. All co-operators must with one voice advocate the same which should be accepted by the Government and given effect to immediately—

(a) Improvement in record of rights and titles of ownership.

The recent changes in registration offices seems sufficient. But it is better to take legal opinion and have a safer course.

(b) In the event of non-payment, the land bank should be legally authorized to foreclose without recourse to a court of law, as in the case of the Federal Farm Board, U.S.A. The debenture bonds should have the Government guarantee both for principal and interest.

5. It is necessary to form an estimate of indebtedness of a village for increasing credit facilities to agricultural classes. There is no such estimate prepared by the Government or other non-official agencies. The co-operative federation or unions are the best agencies for the purpose. A special subsidy may be given by the Government and statistics taken accurately. The point mentioned in the questionnaire may be noted in forming such estimates. The available information that now exists in co-operative societies is the property statement of members of societies. The local co-operative central banks and supervising unions are furnished with these statements in every year. We have such for every district. But in a village all debts are not members and there are villages in a district where there are no societies also. Even the statements prepared are not scrutinized in manner. Hence, these are neither exhaustive nor accurate.

The debts are largely due to (1) money-lenders and (2) then to co-operative societies. The Government never allows any arrears to fall, since it takes all coercive steps in the year and collects the arrears through various agencies. The rates of interest charged by societies are uniform and 10 per cent is the common rate throughout, except in a few societies where it is 9 per cent. In the current year, village societies are compelled by the department to reduce to 9½ per cent from 10 per cent.

A large number of farmers are rendered landless by burden of debts and the creditors enforcing debts by sale of lands. If this process is going on, it does take away from the actual cultivator the incentive to produce more and the cultivators also get disgusted and dejected, so much so, efficiency of cultivation also is impaired.

6. Garden produce, rice-milling and cotton ginneries are common here. They are carried on by persons not agriculturists also. There is no marked or favourable market for the industries, nor is there sufficient capital.

The only industry or enterprise that will give materially and economically uplift to the cultivator is *hand-spinning* and *hand-weaving*. This should be patronized by Government and introduced in every school as vocational training, so that the cultivator may in his farm life resort to it. Government loan should be given for such enterprises.

7. At present, the Imperial Bank affords overdrafts to co-operative banks, but not as liberally as it does to ordinary individuals whose security is far less than that of the co-operative banks. Even here, for short-term loans alone great importance is attached. Even the facility is not possible to be freely availed of, because of the remoteness from headquarters of co-operative banks. There should be branches or at least local agencies of the Imperial Bank where there are co-operative banks' headquarters, so that there may be mutual transaction carried on quickly and advantageously to co-operative banks.

The co-operative banks and joint-stock banks have no joint transaction. The departmental orders and bankers' conferences have put an end to any transaction which co-operative banks have had with joint-stock banks by way of loans. Srivilliputtur Co-operative Banking Union had borrowed Rs. 20,000 from two joint-stock banks which were closed in 1924. Because of the fetter of the department, the same relation cannot be continued. There is no relation between co-operative banks and indigenous banks. They scarcely deposit their funds even.

In the case of long-term capital, co-operative societies are beset with all difficulties. The present long-term capital for five or six years is not really a long-term accommodation. Out of their necessity and with a view to get over the pressing demands, societies get loans for five or six years for long-term purposes, but cannot keep up their obligations later on. If capital is available for at least 30 years, there will be great relief to societies. In case of short-term capital, one year is too short. It should spread over from one to three or four years. For garden land cultivation otherwise called (கொடிக்கறி) lasts for three years, and even in other cultivations the villager cannot be expected to pay the whole value of outturn, as he has to spend for livelihood of his family and other incidental family expenses. A thorough overhauling is highly necessary in the case of short-term and long-term capital for co-operative societies and a detailed scheme should be evolved as suggested by the Hon'ble Mr. V. Ramadass Pantulu.

There is no competition between joint-stock banks and co-operative banks in any area for the method of working is different, and there are very few joint-stock banks also working here.

II.—Indigenous Banking.

1. The indigenous banks or bankers include money-lenders. Some such bankers are also called chit karaswans. They are numerous. Ordinary money-lending business is done by them. *Kuttucheettus* are very prevalent in these parts.

(2) In financing agriculture, the money-lenders play a great part. They give oral loans, without any written document; they give on promotes or simple bonds and in a few cases on mortgage bonds also. But the agriculturists enter into no definite terms with them with regard to instalments, nor do they think about it. They stipulate clearly about interest rate alone. The bankers also do not keep watch over their affairs. With regard to trade and industry, no banker bestows care about repayment of loans borrowed for the purpose. As ordinary money-lending business, they carry on the work.

(3) As regards indigenous banking system, (a) no regular organization exists; the amount of capital invested forms the subscriptions paid by ticket-holder or own private capital or borrowed capital; (b) the volume of this business is small; (c) this questionnaire is almost the same as question 7 in I and the answers apply here.

(4) Specimen forms of hundies are attached separately. The other instruments of credit used by bankers are (i) varthamanam and (ii) chittais.

Besides bonds, a note-book or signature book is opened, in which, as money is paid, signatures are obtained for payment and credits are entered in it. No special means are adopted. The rates of interest on deposits are 8 or 9 per cent in our parts among money-lenders.

(6) The agricultural classes or community have to pay to indigenous bankers rates of interest varying from 18 per cent to 36 per cent as according to circumstances and necessity and also as according to period required by borrower for repayment.

(7) In the majority of cases, there is prejudice against chit karaswans because they are unpunctual in payment of money to customers; at times, exorbitant interest is demanded, all vexatious grounds put forth for postponing payment and in demanding unconditional terms as to security, etc.

These banks are not sufficiently protected in law. The legal facility that can be extended to them is (a) no fees for registration of the banks, (b) no income-tax upon their income. If these are given, they will work on sound lines. As at present, their dealings with the customers are not on sound lines.

The defects are (1) they keep no regular or proper accounts for fear of oppression from the Income-tax department; (2) they enter into no clear terms at the time of opening transactions; (3) they give no receipts for payments, nor make endorsements on documents, but preach confidence for the time being, to serve their own ends later on. There should be legislation (i) that all indigenous banks or bankers are to be registered before the Registrar of Assurances, who should provide the Collector with a list of such every year; (ii) there should be no money-lending by any persons other than those registered; (iii) the terms of business and the articles of memorandum should be clear and specific and a copy be furnished to the officer at the time of registering; (iv) there should be wide publication of such lists and every villager should be able to know the address, etc., of the bank or banker; (v) such banker or bank should be exempt from income-tax; (vi) they should be compelled to keep adequate fluid resource according to the transactions, by deposits or opening cash credits in co-operative banks; (vii) there should be half-yearly audit which should be paid for by the banker and which fees should be determined and collected by the Government every year or an audit union may be formed by such indigenous banks or bankers; (viii) the attitude of the indigenous banking community in giving publicity and introducing measures for regulating their operations will be at first hostile, but in course of years from the concession and facilities that may be given to them by Government and when they derive advantages, they will appreciate the system and put themselves in order and develop also very much the indigenous banking. If this class of bankers should be serviceable to the agricultural community, firstly, (1) income-tax should be abolished; (2) registration of their names and nature of business and capital invested should be insisted upon; (3) only short-term business not extending over five or six years should be undertaken by them and they should be prohibited from giving long-term loans; (ix) the net return to the indigenous bank and bankers, after making allowances for expenses,

etc., will be $\frac{1}{2}$ per cent on average per mensem; (x) the indigenous bankers cannot accommodate all demands owing to insufficiency of capital on required occasions; they cannot resort to any other organized banks with whom they do not invest any funds for emergencies; (xi) the indigenous banking system can best be linked with the *district central banks*, or a local bank with a local directorate may be formed in each district with which indigenous banks may be linked; (xii) all indigenous banks may take shares in it, and the district bank may transact business only through them.

There can be no competition when the indigenous banks form part of district banks who do not directly deal with customers.

III.—Investment habit and attraction of capital.

1. The existing banking resources are little, very little, in the province. They are co-operative banks, Imperial Bank, Indian Bank. But, except in the Imperial Bank or co-operative banks, no regular banking business is carried on. Except co-operative banks, there are none else for encouraging investment habit and savings for villagers. Full facilities are not provided to the public. The existing facilities can be improved and extended to interior places by opening branches as near as possible to the agriculturists, i.e., at least in taluk headquarters and making sub-treasuries transact business through these branches, with a reserve bank at the top and making all other banks subsidiary institutions. The people generally pledge their jewels and get loans at prevailing rate of interests. Even here, no regular system prevails.

2. No. They are not and no steps can be taken. Savings banks in Post offices do not afford all possible facilities to the public. Only officials or fixed wage earners resort to it. To attract others, terms should be made more elastic. The restrictions of amount, duration for withdrawal, and the nature of the personnel should be modified. I don't think there is much competition between Government and other banking institutions in these parts.

3. The landholders who get monies by sale of produce begin to give loans to needy people and till then keep as idle cash. They have no incentive for investment. The traders who get money in trade simply invest in trade and, till the necessity for business investment arises, keep as idle cash. The farmers lend to fellow agriculturists either for payment in kind or in cash, repayable during cultivation season. But mostly no farmer has to my knowledge been able to save any substantial amount.

4. The cheque habit commenced only with co-operative banks and Indian banks. In course of last ten years, this habit has taken such deep root that literate and illiterate also equally appreciate the advantages. The abolition of stamp duty on cheques has encouraged savings deposits to a great extent. The vernacular scripts used in Indian Bank may be followed in all banks.

5. I agree that investment and banking is of very slow growth in India. The causes are in the main due to lack of *Government support*, security of banks, want of facilities for transmission of money.

In places where there are Imperial Bank branches, Government moneys pass through them and it creates a popular belief that moneys invested in branches are safe and sound. There is no reason why the same privileges should not be extended to co-operative central banks. The latter has got security or the properties of the agriculturists, on account of unlimited liability of rural societies. In the interior of district or taluk headquarters, the sub-treasuries should be made to merge in or coalesce with central banks and all Government reserve should pass through them. The funds of local bodies may also be permitted to pass through them at a small premium.

Answer to supplementary questions.

(1) It is desirable to create by law a special type of instruments, but all care and caution is necessary in settling the details and form of instruments, since Indian customs differ widely from English or other foreign customs and since Indian commerce also is governed to a great extent, by Indian habits.

(2) The legislation should cover both cheques and other instruments.

(3) Provision should also be made for protection in case of 'hundis'.

தேதி, 1929-ம் ஆண்டு செப்டம்பர் மீ 17உ.
1105 புரட்டாசி மீ 3உ.

கூ. 7.

உண்டியல்.

அறுமுகத் தரகனார்.

ம-ந-ந-ஸ்ரீ. உண்டியல் விடாபாரம் திருதெல்லேலி

ச. அ. பிச்சுவய்யர் அவர்களுக்கு.

இவ்விடம் ஸ்ரீவில்லிபுத்தூர் நூல் வியாபாரம் அ. ச. சங்கரலிங்க மூப்பனார் ஆர்டருக்கு ரூ. 1,000-0-0 (ரூபாய் ஆயிரம்) மட்டும் கண்டவுடன் கொடுத்து இதில் செல்லுடன் எங்கள் ஸ்ரீவி. கடை கணக்கில் பத்தெழுதிக் கொள்ளவேண்டியது.

(ஒப்பம்) அறுமுகத் தரகனார்.

தவணை, புரட்டாசி மீ 6உ.

(Translation.)

No. 7.

Dated 17th September 1929.

3rd Purattási 1105.

Handi.

Arumugattaraganar.

To

M.R.Ry. S. A. Pichu Ayyar Avargal,

Hundi merchant, Tinnevely.

At sight, pay to the order of A. S. Sankaralinga Mooppanar, yarn merchant of this place, Srivilliputtur, Rs. 1,000 (Rupees one thousand) only and debit the same in the accounts of our Srivi. firm with an endorsement of the payment hereon.

(Signature) Arumugattaraganár.

Due date, 6th Purattási.

தேதி, 1929-ம் ஆண்டு செப்டெம்பர் மீ 17உ.

கூ. 6.

க. ச. ரு. சுப்பிரமணியஞ் செட்டியார்,
நூல் வியாபாரம், ஸ்ரீவில்லிபுத்தூர்.

ம-ந-ந ஸ்ரீ. கந்தசாமி மூப்பனார் அவர்கள்,
திருதெல்லேவி.

கொ. ச. நாராயணத் தரகனார் வகைக்கு ஷெயார் ஆர்டருக்கு ரூ. 500-0-0
(ரூபாய் ஐந்துநூறு) மட்டும் கண்டவுடன் கொடுத்து இதில் செல்லுதல் இவ்
விடம் கணக்கில் பற்று எழுதிக்கொள்ளவேண்டியது.

(ஒப்பம்) சுப்பிரமணியஞ் செட்டியார்.

ரூ 500-0-0.

(Translation.)

Dated 17th September 1929.

No. 6.

From

K. S. R. Subrahmanyam Chettiar,
Yarn Merchant, Srivilliputtur,

To

M.R.Ry. Kandaswami Mooppanar Avargal,
Tinnevely.

At sight, pay to K. S. Nārāyanattaraganār and Company to the order
of the said Nārāyanattaraganār Rs. 500 (Rupees five hundred) only and
debit the same in our accounts with an endorsement of the payment
hereon.

(Signature) Subrahmanyam Chettiar.

Rs. 500-0-0.

**Written evidence of M.R. Ry. B. SITARAMA RAJU Garu,
Bar.-at-Law, President, Taluk Board, Visagapatam.**

1.—Agricultural credit and credit facilities for small industries.

Present system of obtaining finance.

(a) *For expenses during cultivation.*—Petty agriculturists obtain short term loans usually from the village sowcar. The loan is obtained piece-meal from the time of sowing to the end of incurring reaping expenses. The rate of interest varies from 15 per cent up to 24 per cent, ordinarily on the security of the crop. The amount which is advanced from time to time in small sums is entered in the *chitta* or account books of the sowcar and finally the full amount advanced is calculated with compound interest and the sum with interest is secured on a promissory note at the time of the last payment at the above rates of interest which varies according to the need and the influence of the cultivator. Security taken is ordinarily the crop but during recent years, pledge of jewels, gold and silver is usually insisted on in addition to the security of the standing crops. Where the cultivator is the owner of the land, joint security of another or mortgage of the land is also insisted upon, if the sowcar suspects that the cultivator's liabilities exceed the value of the crop. It is usually the sowcar who buys the crop and sometimes specific conditions are entered by which the cultivator is bound to measure the crop to the sowcar in kind for the discharge of the loan. The sowcar, who is better informed about the market prices, buys the crop at a price advantageous to him. Very often the cultivator ignorant of the market prices undersells his crop. If the sowcar does not purchase the crop himself, he arranges for its sale so as not to lose sight of the crop till his amount is realized. Often, as the main crop on which the loan is advanced is not sufficient to repay the whole amount due, the balance due will either be carried to next year or realized piece-meal on the second or subsidiary crops. As in the continued indebtedness of the cultivator lies the prosperity of the sowcar's business, the cultivator when once he gets into the sowcar's books finds it hard to get out of it. The sowcar often is one who is not an indigenous villager born and bred in the village but one who has settled there with an eye on business and is generally the village grocer and what is not realized by him by money-lending, he does by the sale of the simple needs of the villagers, like chillies, salt and other groceries which are only on sale with him at exorbitant prices. Owing to the influence he exercises over the cultivator as his sowcar, he cannot but purchase these needs from him only. If the village is a populous one, there will be more than one sowcar and the cultivator chooses his own sowcar in the beginning and when once he chooses one, he will not be permitted to change till he settles his accounts with him. There is co-ordination among these village sowcars whether of this village or of neighbouring villages. Though there is a rivalry among the sowcars they form a sort of union to enforce their claims and rights on the villagers and make common cause. If a village is not rich enough to attract even a single sowcar to settle there, the villagers have always the services of the sowcars in the nearest big village or town offered on the same terms. There are very few cultivators who have not these *katus* with some sowcar or other. Thus, for all practical purposes, the petty cultivators are mere agricultural labourers labouring for the sowcar and in several cases the sowcar brings the lands for sale and becomes land-owner eventually. The occupation of the village sowcar has become so attractive that several agriculturists and petty landlords with a little capital are replacing the sowcars here and there. As dealings of this class are less difficult and more lenient, the sowcar's business suffers wherever these come in. There are now in almost every important village co-operative societies which could have replaced the whole system but for certain disabilities. They will be enumerated under that head presently.

(b) *For capital and permanent improvements.*—In this district most of the land is *samindari*, owned by big landowners like the Maharaja of Jey-pore, Raja of Visianagram, Raja of Bobbili and a few other minor *samindars* while only a few portions are Government lands.

In all zamindari estate lands, it is the zamindar who has to incur ordinarily all capital and permanent improvements of water sources and the like. The zamindars in this district are the richest in the province and therefore there is no need for them to go in for loans for moderate projects. Whether the land is owned by the zamindar or the Government, adequate improvements do not appear to have been made. It is a standing complaint of the ryot that adequate steps have not been taken in this direction. In some taluks the existing water sources are even not kept in proper state of repair as the several complaints lodged before revenue officials bear testimony. As these water sources often are common to several hundreds of ryots, no one or no group of ryots can incur the capital expenditure even if he could recover the same from the landlord. Thus with the neglect of the landlord, the incentive of the ryot to do all he could is being lost. The cyclone of 1923 has so ruined the existing water sources in several taluks that, though they are just now coming up into normal conditions after strenuous struggle for years, one may fairly despair of hoping for any new schemes or projects of water supply. In a district where there are no big rivers but only several rivulets whose water is rarely belted for agricultural purposes but allowed to run into the sea, the problem of water-supply cannot be exaggerated and the only class of people who can move in the matter are the big landowners.

After this class of people come the landowning *inamdars* and *girayati puttadars* with permanent rights of occupancy in the land, who can go in for capital and permanent improvements of land as non-owning tenants cannot make permanent improvements. These landowning classes in this district are as a class not rich in the sense that they have no large sums of money in the banks. Whenever they have to make any capital expenditure, they have to go in for loans. There are ordinarily now three sources from which they can obtain credit—(1) indigenous bankers and money-lenders; (2) co-operative credit societies; and (3) the Government. For reasons to be stated under each head of the last two the only source from which these people obtain loans are the indigenous bankers and money-lenders with whom they have the freedom to liquidate the debt in sums and at times they choose to pay provided the security they offer is adequate.

The rate of interest usually charged on these loans is 10 per cent to 18 per cent varying with the amount borrowed. The interest is less in the case of large sums and high in the case of small sums.

Security offered and accepted for this class of loans is ordinarily land and other immovable properties as the loans are generally long-term loans.

These classes generally are afraid to invest large sums of money in capital expenditure for the reason that, as they have to borrow this money, the capital invested and the accumulating interest have to be recovered within a reasonable time leaving alone for the time being the enhanced income likely to result by the venture. In the nature of things, as investment on land is speculation, it has a deterrent effect on petty landowners who have to borrow capital at a high rate of interest and the return may fail to bring an adequate sum to repay his capital with interest and labour. Therefore, there are very few permanent improvements made by investing large capital by this class of owners. It is true that under Government and recently under co-operative societies loans are available for lower rates of interests. Since April last the Government advance at 6½ per cent and co-operative societies at a little less than 9 per cent. But ordinarily improvement on land brings about 3½ per cent to 6 per cent on the investment for a long time, though in the beginning the return is very little.

Again, if a *puttadar* were to convert waste land into dry or dry land into wet, he has to pay the zamindar or the Government rates on dry and wet respectively. This will also add to his cost. In the case of the *inamdar* the lion's share of the return goes to the actual cultivator. When the full benefit of his investment is not realized by him and when the cultivator himself will not go in for these improvements, no wonder the holdings are not showing appreciable improvements.

Therefore, whenever the returns in all reasonable probability appear to be sufficient to repay the investment leaving a little margin for profits, these landowners are going in for land improvements on capital expenditure and usually borrow by mortgage of lands from the indigenous bankers and money-lenders and private persons willing to invest capital on the security of land. As already mentioned, the interest is from 10 to 18 per cent but

the general rate is 12 per cent. As the income to be derived by the investment depends on various causes and timely rains and the market, and also in all probability there will be no appreciable return in the first few years, these landowners do not borrow from the co-operative societies or the Government though their rates of interest are low, because, they do not give the freedom the borrower has, if he borrowed from private persons, to discharge his liabilities in the manner and at the times convenient for him. There is also a tendency on the part of the man who borrows to borrow a little short of his needs and he finds a little too late that he should have taken more. The amount borrowed being inadequate, all his returns go in towards the balance of the capital he needs for the venture and he neglects the periodical part payments and allows them to accumulate and land him in difficulties, so much so that the lender steps into his shoes, completes the work and realizes the full benefit of the scheme.

(c) *For other special needs, i.e., failure of monsoon, arrears of revenue, etc.*—Whenever there is a failure of monsoon, under the Agricultural Loans Act of 1884 a provision is made to advance up to Rs. 200 in each case to relieve distress and enable the owner or occupier and his dependants to subsist until the next harvest. To get this benefit, the distress must appear to the local Government to be real. By the time the distress is recognized by the Government and help is sanctioned and passes through the Government channels to the sufferer, he either emigrates or starves or wanders in search of subsistence from his native home.

But persons better circumstanced obtain loan in cash or in kind usually from the village sowcar in the same way as loans are obtained for cultivation expenses as stated under (a) at the same rate of interest or by pledge of gold and silver or by inducing friends to give security for him. In the same way loans are obtained to pay the land revenue. Non-payment of revenue and failure of monsoon generally go hand in hand.

Co-operative banks.—These societies are now formed in almost all important villages and have been rendering immense good to the agriculturist. They are replacing the village sowcar and the indigenous money-lenders and the Government's activities under the Land Improvement Act and Agricultural Loans Act largely. These societies could have completely revolutionized the existing systems of obtaining loans from other sources and driven the village sowcar out of the village but for the following disabilities:—

(1) By the time the societies are opened, the agriculturists have been already indebted to the sowcars and the extent of the liabilities with the sowcar are such that unless they are in a position to clear their accounts with the sowcar they cannot leave him. Therefore, all indebted people are deprived of this benefit.

(2) Though the rate of interest of the society is lower than that of the sowcar, the freedom allowed by the sowcar to the agriculturists to discharge the loan in the manner, at the times and in the shape he could is advantageous.

(3) The amount allotted to each village society by the central organization is often not adequate to the needs of the whole village.

(4) The President and the Secretary of the society who are generally the most influential in the village have for all practical purposes the choice in the distribution of the loans, the members merely endorsing their resolutions.

(5) It is only the well-to-do agriculturists who can offer security that are benefited under this scheme; the really needy agriculturists have not sufficient security or credit except the hard labour they can put forth which of course is not taken into account. Thus the labouring classes, who need help more, are not benefited as they should be.

(6) The rules of the society are rigid and enforceable rigorously. The people in rural areas not having learnt the value of time as the essence of their obligation, frequently commit default, as the number of suits filed by these societies bear testimony.

(7) A closer supervision and extension of their activities covering the whole range of agricultural needs and scrutiny that the amounts are spent for the purposes they are lent are wanting.

(8) The rate of interest considering the nature of the soil in districts like ours should be lowered at least to 6½ per cent at which the Government loans are offered under the Agricultural Loans Act.

The possibilities of the co-operative societies' usefulness are immense and the future of bettering agriculturists and developing land depends upon the extent to which these societies function.

Part played by Government in Agricultural Finance.—Under the Land Improvement Act of 1883 the Government advance loans through their Revenue Officers from Rs. 50 upwards for the construction and repair of wells and tanks and for reclamation of waste, and in case of wells the period for which the loan is given is 30 years and for all other purposes if the amount borrowed is Rs. 500 or less, 10 years is fixed for complete repayment; and for loans up to Rs. 1,000, 15 years and for loans above Rs. 1,000, 20 years. Under the Agricultural Loans Act of 1884 loans are granted for the purchase of seed and cattle up to Rs. 1,000, for other agricultural objects up to Rs. 2,000 and for the relief of distress on failure of monsoon up to Rs. 200.

The rate of interest charged on these loans has been reduced to 6½ per cent since April this year.

Security for these loans is taken at the discretion of the officer sanctioning the loan but it should never be 1½ less than the amount advanced.

Among the Revenue Officers, the Tahsildar can sanction a loan up to Rs. 500, the Divisional Officer up to Rs. 1,000 and the Collector up to Rs. 2,500 and all loans above this amount require the sanction of the Board of Revenue.

The procedure adopted for the purpose of granting these loans is that an agriculturist has to put in his application which will be enquired into by the Tahsildar if the loan is for an amount the Revenue Divisional Officer or the higher authorities have to accord sanction for; but, if it is an amount he himself can sanction, the enquiry will be made by the Revenue Inspector. In the enquiry, the enquiring officer has to be satisfied that the application is in respect of a *bona fide* need and that the security offered is adequate. When he is so satisfied, he sends in his report recommending the loan which is ordinarily granted with conditions attached, namely, that he should apply the loan in the approved manner and repay the loan in fixed instalments where time is the essence. The Revenue Officers, when once the loan is granted, periodically inspect to see whether he is satisfying all the conditions. If at any time the officer finds that the applicant has failed to carry out the conditions, the Collector will be moved and he can and usually does order summary recovery of the entire loan amount.

The duty is cast upon the Tahsildars to submit every year budget estimates of the loans required in his taluk for the ensuing year. All these reports are consolidated and the Collector obtains the necessary amount for the ensuing year. If any application for loan is not covered by the Tahsildar's estimate of his taluk requirements or if any application is received subsequent to the submission of the budget estimate sent by him, there is no chance for the agriculturist to obtain the loan in the following year. He has to wait till his amount is included in the next budget. In emergent cases if there is any reserve available a special allotment could be made but this is rarely done as the Board of Revenue has to be moved.

It may be noticed that the interest charged on these loans by Government is only 6½ per cent, that is, much lower than what is charged by the co-operative societies. However, as can be seen, the amount in the district borrowed from Government is indeed so ridiculously little and several times less than the amounts spent in the district by the co-operative societies for the same purpose. Why do the people not take advantage of the Government loans at lower rates of interest? It is because of the trouble involved in moving so cumbersome and heavy a machinery as the Revenue Department and again the Tahsildars who are the men directly connected with this work do not evince enthusiasm for extending these benefits as it involves them in additional duties and responsibilities, as, for example, the constant supervision expected of these to see that the loans are properly applied and duly discharged and that the security is adequate. Though even in respect of co-operative society loans conditions are attached and though there are equally enforceable, rigid rules, still it is easier to get loans from them than from Government, as is self-evident from the fact that the amounts actually expended for this purpose by the Government are entirely disproportionate to the real wants of the district in this direction.

Joint-stock banks.—There are no such banks in this district.

Imperial Bank of India.—It has no direct dealings in agricultural finance in this district. It moves on a commercial basis. The indigenous bankers and money-lenders have of late secured large credits with this bank in all their ventures in agricultural advances to cultivators for purposes of trade and command of capital at pool centres and the like, and they draw from their credits in this bank as the interest they have to pay the bank is very low leaving them very large profits. Similarly, rich agriculturists command credits and at times like the groundnut and jaggery seasons they command extensive dealings with the bank.

Indigenous bankers and money-lenders.—I have dealt with the part played by these in answer to (a).

Companies trading in fertilizers and the like.—Improved machinery, chemical manure and similar modern scientific methods are little used in the district. Intensive cultivation is rare in this district owing to land being available for extensive cultivation and thousands of acres of waste is still unreclaimed and in the eagerness to cultivate more land, as long as it is available, scientific production is seldom resorted to. The simple villager in this district is so very backward educationally that he fails to appreciate methods to which he and his father before him were not accustomed. Sheer necessity to produce more within a limited space and the example of others doing the same commonly induce him to follow. As yet such incentive is not felt to any appreciable extent. Further, local labour is cheap in this district and therefore scientific and modern improved processes do not pay. Therefore, companies, promoting these things and giving credit for this purpose, do not find much scope for business in this district among the agricultural population. The zamindars could have taken up if they are interested directly but they do not.

Capital.—The total amount of capital required for all the above purposes would be about Rs. 50 lakhs for this district considering the vast areas still unreclaimed and the poverty of the district. The amount mentioned would not be an exaggerated figure.

Co-ordination among various credit agencies.—I have already mentioned in answer to (a) that there is co-ordination among the indigenous money-lenders—the village sowcars and they make a common cause when necessity arises.

There is no co-ordination between the revenue authorities functioning under the Agriculturists Loans Act and the co-operative societies. There is again no co-ordination among indigenous bankers other than the village sowcars.

Defects in the present system and the remedies.—The village sowcar's rates of interest are exorbitant; his terms of business do not give scope for rural uplift because till now he is the undoubted master of agricultural finance in the village and alone. The co-operative societies should have to replace the village sowcar.

Now the co-operative societies are functioning for the very purposes for which the revenue authorities were constituted to function under the Land Improvement and Agriculturists Loans Acts; there is no necessity then for the latter whose system of functioning is necessarily slow to move, too calculating or too cautious to be of real practical use. It is easier to convince a local society than a distant Revenue Officer who cannot have the same local knowledge. Too much of red tape and official cautiousness tend to dilatoriness in methods at any rate at the base of the official pyramid. Though under Government only 6½ per cent as against 8 per cent of the co-operative societies need only be paid for these loans, the fact that several lakhs are borrowed from the societies while only thousands are borrowed under Government is significant.

I suggest that the rate of 6½ per cent interest now charged for the Government loans should be the rate of interest chargeable by the co-operative societies and that the duality of functions may be abolished leaving the societies to carry out the functions of both in this respect.

In zamindari districts like this, the zamindar whenever he fails to carry out any reasonable scheme of land improvement at the instance of the ryots the co-operative societies should be allowed to finance the scheme and hold the land as a first charge for the sum advanced.

The petty landowners and large pattadars do not feel encouraged to make improvements on land for want of money at cheaper rates of interest and security for reaping the fruits of their venture as against the tenants cultivating under them. This middle class requires all the encouragement for

improvement of land. In their prosperity lies the future of agriculture, as the agricultural labourer and under-tenant who just manage to merely cultivate the land cannot be reasonably expected to undertake land improvements which require financial security. In the revision of the Estates Land Act, it is hoped the *inamdar's* and the *pattadar's* position will be properly safeguarded.

Lastly, I suggest that the future depends upon the facilities afforded for agricultural finance by land mortgage banks for long-term loans. For want of such facilities and for want of opportunities of getting long-term loans on low interests much land is lying waste in this district and improvements are not adequately made. If this is possible, I am sure thousands of acres in Jeypore *samindari* and Vizianagram *samindari* now lying waste will be brought under cultivation and many a water-course will be made proper use of. There are now thousands willing to stop in this district instead of emigrating, if there is scope for this labour to be financed locally.

2. *Principal crops of the district and the method of marketing the same*—(a) *Paddy (and pulses)*.—As the quantities grown are not even sufficient for local consumption, they are ordinarily sold to grain merchants or rice-mill owners after reserving stock for village consumption, who, in turn, mill them into rice and sell them in towns and villages for district consumption. In taluks where they are grown in large quantities, the ryots sell direct to wholesale merchants or consumers in large quantities. Retail marketing is done by the village sowcars in every village.

(b) *Tobacco and small quantities of chillies and onions*.—Grown much more than is needed for local consumption. These are exported to Burma (Rangoon) and colonies where Indian labour is working, such as Annam, Natal, etc. These are usually purchased by local merchants and sold to agents of companies of Calcutta or Madras who directly deal with the foreign merchants. Sometimes middlemen intervene between the local merchant and the agents of the said companies.

(c) *Oil-seed and agency produce, leaves*.—There are two principal centres of trade, one at Salur, the other at Madgole, besides minor stations where middlemen arrange terms with the resident agents of firms of Calcutta and Madras and purchase the crop from the cultivator and sell them to the agents.

(d) *Groundnut*.—Of late this has become the principal dry crop in the district, being largely grown mostly for foreign trade. European companies have local agencies which buy up the crop through middlemen. The cultivator sells in advance at a rate fixed to the sowcar who, when the crop is dug up, pays the cultivator and takes the crop either to the pool or sells to the agent of the company.

(d) (1) *Gingelly* and other oil-seeds come next to groundnut for foreign as well as inland trade in the same way as groundnut is marketed. There is a centre at Vizianagram for carrying on inland trade of oil. There are oil expellers in this place and at Anakapalli and there are oil presses also in some other places.

(e) *Jaggery*.—Sugarcane, out of which jaggery is made, is largely grown in the southern taluks of which Anakapalli is prominent. During the season temporarily, firms will be opened for four months in the year, for the purchase of jaggery to sugar factories, distilleries, and some companies of Bombay, Calcutta and Madras through their agents.

(f) *Mangoes*.—These are grown extensively and exported to inland stations like the Punjab, Calcutta and other places in Northern India largely depending upon the market conditions of Durbhanga and similar Northern India garden centres. During the last two years the pool system is followed in Alamanda, an important mango centre. Temporary firms are being opened for three or four months in the season who purchase the crop and sell the same to agents. The agents advance on agreement to firms who are enabled to pay in whole or in part for the crop and deliver the same to the agents.

(g) *Jute*.—Mills at Nellimarla and Chittivalasa, purchase produce and make them into bags, while shippers purchase through agents for foreign export.

Possibilities of forming pools and of co-operative effort.—The pool system is now being adopted with regard to jaggery at Anakapalli, as regards agency produce at Salur and Parvatipur, at Alamanda as regards mangoes and with reference to groundnut at Pondur station. Dusi, Vizianagram and Amadalavalasa. Local merchants and temporary merchants camp at these places in the season to which centre the agents of companies or merchants of foreign places or other inland stations come and likewise camp. This pool system has found favour with middlemen and local merchants and there

is every possibility and likelihood of its growing into a settled institution, as it has been found advantageous for foreign agents to do business at one centre and develop continued relations. It has been found advantageous to the local merchant owing to the control he has over the market. This pool system does not appear to confer any advantage on the producer however.

Present system of obtaining credit facilities during marketing.—An agent to a firm (Foreign or Indian) advances to *B* the local agent, and on to the producer the ryot. *B* advances to the ryot and takes the produce from him and pays him in full at the market pool where it is delivered and then *B* forwards the produce to *A*. *A* gives *B* a hundi to a local merchant or to a bank where he has credit. *B* is generally a local merchant and money-lender with credit.

If he is not a man with credit he cannot be *B* but only a broker. In other words *B* has no credit facilities except what he could personally command by borrowing from local money-lenders at the rate of 12 to 18 per cent or draw from the Imperial Bank from any credit they can give on enquiry made by the bank regarding his financial worth.

Credit facilities required during marketing.—The local merchant, sowcar or middleman, generally described as *B* in the above paragraph, is a person who cannot undertake extensive operations, as the credit is purely personal. If in the place of this *B* co-operative societies were to step in and give credit for marketing purposes and for financing of products during marketing, the producer will be benefited and the local businessmen can have large scope for business with such credits extended to them by the co-operative societies whose interests are low and who may be permitted to advance on business instead of on purely personal security demanded by local money-lenders.

Difference between Internal trade and Foreign trade.—In this district there is no direct dealing with countries outside India, which business is carried on by agents of firms of Calcutta, Madras and Bombay, residing in the district either permanently or during the season. So also in the case of trade between this district and other parts of the country through agents of such parts. Therefore, so far as the local business is concerned, there is no difference between foreign and inland trade.

Part played by banks and merchants in the process of marketing.—The Imperial Bank gives credit to local merchants and landowners or capitalists engaged in trade from the credit allowed to each on enquiry and registered in the bank books. This is purely credit allowed to persons. Sometimes on merchandise the bank is giving credit to approved customers and cash hundis, etc.

The co-operative banks are not playing any part in this respect.

The indigenous bankers and money-lenders advance on produce or on promissory notes and collect their dues either in the shape of produce or cash with interest but do not engage directly in the business where they are not the middlemen themselves as mentioned above as *B*.

Internal remittances are either by cash or by hundis to merchants, but only to such of those who have dealings.

Defects in the system and suggestions for improvement.—I may repeat under this head again that co-operative societies have no hand in the process of marketing by way of affording credit facilities and act as middlemen replacing the sowcar, between the producer and the buyer. On this account the scope for business is limited. The producer is not having his worth. Large profits go to local money-lenders who advance at exorbitant rates of interest in this season. Current market prices and marketing conditions are a sealed book to the agriculturist and local tradesmen are unable to undertake extensive operations owing to limited personal resources. I would suggest that the co-operative societies have to step in and undertake to finance in marketing and organize to bring the local produce to market centres through their agencies. In this way not only adequate credit facilities will be afforded to extend business but the agriculturist will be induced to grow produce which brings him large profits and enables him to reach the market and sell his produce through these agents for whatever it is really worth.

Negotiable instruments.—In marketing, promissory notes, bills, and cheques are seldom used. Hundis are used but owing to high commission payable on it, it is avoided, if possible. Cash transactions are popular inasmuch as business in this district is not for heavy sums and extensive and also since the agriculturist has to be ordinarily paid in cash.

Hundis are of three kinds in use in this district—(1) *Darasana hundi*, (2) ordinary hundi, and (3) sight hundi. The *darasana hundi*, as its name implies, is payable on sight and the ordinary hundi is payable after collection. Sample forms of these hundis are attached. Sight hundis are those which have to be paid up after the dates mentioned therein.

Heavy commission is charged on these hundis, e.g., 4 annas per Rs. 100 up to Rs. 1,000 and 2 annas above that sum per Rs. 100. If the commission is reduced, there is scope for their use extensively. Hundis emanating within this district are locally discounted and sometimes through the bank. They are held by middlemen and merchants who are, in one sense, commission agents themselves. In case there is no bank credit, the use of the middleman is necessary which involves additional commission. There is no separate institution of commission agents in this district.

Other instruments of ownership of goods.—Letters from merchants and railway receipts for goods are usually employed for raising money during process of marketing. In case of railway receipts, the advances cover largely the value of the goods covered and in case of the letters from recognized firms or merchants one-third to two-thirds of the value of the goods is advanced.

Difficulties in the use of these instruments.—If the matter covered by them were to go to a Court of Law, penalties will be levied as unstamped documents. They are subject to the ordinary law of contracts and subject to the same dilatory process with all attendant proofs required for enforcement as any other.

They may be classed as business instruments of trade, without penalty, to be freely used in court without undergoing penalty.

Licensed warehouses.—I do not know of the system prevalent in the United States. In this district, owing to the construction of the Vizagapatam Harbour at its headquarters, which is expected to draw inland trade of Central India as well as a portion of the trade now passing through Calcutta and Madras as a direct trade-route to the East, there seems to be every possibility of developing some approved system of licensed warehouses along with ports like Bombay and Karachi on the West, whatever the lines on which such a system should be run. As the Vizagapatam Harbour warehouse scheme is yet to begin (though in the near future), it could be run on approved lines as none exist. State aid which involves, to a certain extent, State control, is said to be the best expedient in all matters where the country as a whole is affected. The Vizagapatam Harbour is an Imperial Port with which if the warehouse system were developed there is a greater security that it will not fall into the hands of a few foreign companies with extensive bank credits and be converted as European preservers in virgin localities like ours where big Indian capital is yet not forthcoming.

3. *Value of land per acre for different crops in the district.*—The value depends according to the locality in this district which is the most extensive in India. However, the following table is given as an approximate value :—

Value per acre (dry).—Land yielding dry crops—Rs. 100 to Rs. 400 per acre as follows :—

Land yielding tobacco and sugarcane on dry	..	..	Rs. 250 to 400
" ragi, chillies 200 to 300
" groundnut 150 to 250

Land for gardening purposes 100 to 200
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Agency land yielding wild growth 20 to 50
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<i>Value per acre (wet).</i> —Land yielding wet crops	Rs. 300 to Rs. 150
			per acre.

Land under projects and perennial water-supply, as for example, in taluks of Palakonda, Anakapalli and Sarvasiddi, which can yield two crops 500 to 1,500
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Land fed by tanks, hillstreams, etc., which ordinarily can yield one crop only in other taluks 300 to 500
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Value of lands per acre—

(1) In Government and zamindari auctions, dry 50 to 300
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Do. wet .. 200 to 400
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(2) Court sale wet .. 300 to 500
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Do. dry .. 200 to 300
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(3) Private negotiations dry .. 250 to 500
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Do. wet .. 500 to 1,500
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N.B.—It may be noted that in zamindari sales the sale is generally for only a few cents of land to cover the arrears due to the estate. Whole plots are rarely brought to sale. There are few Government sales as Government lands are very few in the district.

4. There is no legal impediment to mortgage of land.

Land or holdings by full owner.—The only difficulty is the extent of rights of the *inamdar* and *pattadar* in certain classes of land by reason of conflicting decisions on the provisions of the Estates Land Act 1908.

Land mortgage and agricultural banks are just being opened in this province for long-term credit. It is too soon to say about them as they are just fresh and the method of work and raising capital is what is mentioned in their prospectus.

In such an extensive province like ours the opening of a bank about 500 miles away at the provincial capital, suffers in its usefulness by its remoteness unless district branches are opened. At present there is no provision made to open district branches. Every district should have a branch of these banks, which can replace Revenue Officials' functions under the Agriculturists Loans Act and the Land Improvement Loans Act and co-ordinate with the co-operative societies.

(a) & (b) The existing registration process seems to be satisfactory since no complaints are held. In matters of rights and ownership of land, in the nature of things there can be no simpler procedure. As regards foreclosure and sale, if the usual delays of law courts are not encouraging to mortgage banks, any simpler process like the one given to the zamindar under section 112 of the Estates Land Act, if given, will have a deterrent effect on the agriculturists borrowing from these banks, as speedy foreclosure and sale of properties for low amounts at auction is a penalty hanging so heavily upon them that they will not borrow adequate sums for effecting improvements and half undertakings do nobody good. I do not suggest any process which reduces time by which the debtor can yet release himself.

(c) The cost of obtaining encumbrance certificates and the like is not considered exorbitant.

The working capital of mortgage banks may be derived from all the three sources mentioned but debenture bonds should have the State guarantee for both principal and interest if they are to be usefully issued. The State can have periodical scrutiny, audit and surcharge. The bank can raise on deposits at 5 per cent and on funds from central institutions at 6 per cent and on debenture bonds again at 5 per cent. They can lend at 6½ per cent to 9 per cent according to the sum advanced. If they have the Government guarantee, as the interest they allow is more than the Government and current bank rates, it is likely to be attractive and there would be sufficient margin if they give long-term loans at 6½ per cent to 9 per cent. As a matter of fact the interest charged by Government since April this year on long-term agricultural loans is only 6½ per cent. The bank cannot have very much more than that and at any rate not exceeding the rate of co-operative societies which is now even a little less than 9 per cent.

If 6 per cent is allowed to central institutions, they will be willing to invest, as again the rate of interest they get from Government is very much less than this. If there is no Government guarantee to these loans, the banks will not have several depositing with them their earnings. The co-ordination of the co-operative societies with the mortgage banks seems essential for proper working of the whole scheme and the consolidation of these activities will give adequate provision for finances and the local knowledge available to co-operative societies will be of immense advantage to the bank which can always supervise the working of the system through its district branches.

5. There is no such estimate either for the village or for the district of the existing indebtedness of agricultural classes. In respect of amounts of debt secured on land and other immovable properties [as even the village house mentioned under clause (c)], for all amounts for which registration is necessary, the consultation of the records of the Registrar's office in the district, and the records in courts for a period of twelve years, the consultation of the revenue records which may show indebtedness to Government under the Agriculturists Loans and Land Improvement Loans Acts and of the records of co-operative societies which have been recently advancing loan for these purposes will give a fair estimate of such indebtedness, while debts incurred on movables and implements can only be had by a minute local enquiry in consultation with the village sowcar's books and local information generally available to village officers who are the document writers and mediators. Registration records also show even in cases where no specific property but

general security is given all sums secured over Rs. 100 on such security of property situated within its jurisdiction. If it is necessary to get accurate and reliable record of indebtedness a district commission for every district has to be appointed, to prepare such an estimate, in the same way as district survey is made.

As stated above, there is no such estimate even for a village; the other question raised under this head cannot be accurately answered but in a general way it can be said that most of the debts are incurred for—

- (1) payment of earlier debts and growing interest,
- (2) payment of land revenue and sustenance in times of distress,
- (3) seed and manure and bad farming.

For the education of children in rural areas no debts are incurred by agriculturists who do not go in easily for educating their children as their services are needed on the farm even in their tender age. The Local Fund free schools are not thickly attended owing to this apathy. They do not also incur as a rule any debt for improvement of implements, the old style being still followed in spite of demonstration, while sinking wells and improvements are rarely undertaken by going in for debt, unless hard pressed by such wants. Amount incurred under this head will generally be very small and as regards marriage and social occasions most of the agriculturists belong to classes which do not go in for heavy expenditure under this head.

The debts of agriculturists are largely due to the sowcars and money-lenders than to others.

The interest charged on them is from 12 per cent to 24 per cent and in a few cases even 32 per cent if the amount of debt is only a few rupees.

Yes, there are a large number of people. Good farmers are losing hold of their land by the enforcement of debts and the property passing over to creditors, they themselves becoming tenants at will or emigrating to Rangoon and other places from this district. If this process were to continue, petty farmers will gradually disappear and in their place by a process of assimilation larger holdings will come in. It is by indebtedness and constant pressure that those petty farmers are putting their strength to the last ounce.

If they become mere agricultural labourers, then they will have no subsisting interest and therefore the consequent loss of incentive. So long as they are in the state of indebtedness they cannot afford to be callous and lazy.

6. Existing subsidiary industries—

- (1) Garden produce.
- (2) Groundnut and rice milling activities.
- (3) Tobacco factories. These are called factories by the villagers but they are mere drying and dressing sheds.
- (4) Sugarcane grinding and making of jaggery with or without modern implements.
- (5) Oil industry, i.e., making of gingelly, groundnut and other kinds of oils.
- (6) Making of leaf plates for eating food (extensive trade).
- (7) Making of baskets, mats, etc.
- (8) Making of gunny bags (factory).
- (9) Lac work and other village industries in certain localities.
- (10) Ghee and other dairy preparations.
- (11) Poultry, sheep and goat farming.
- (12) Cotton ginneries and hand-spinning and, in the case of some people, weaving coarse cloth.

Additional industries in a small way—

- (1) Bell-metal industry.
- (2) Brass vessel and utensil making.
- (3) Leather curing.
- (4) Iron work and wood work.
- (5) Ivory and horn work at headquarters of the district.

Methods by which these industries could be encouraged.—In drawing up a scheme for rural development for the Visagapatam Taluk Board's area, as public health, communications and water-supply by themselves cannot uplift the village life without agricultural and economic uplift of the villager, it was proposed under that scheme to start in every circle of 10 to 15 villages a rural economy school to teach and encourage subsidiary industries suitable to each locality not by importing new industries, if possible, but by encouraging old ones. This economy school is modelled after its prototype in Gurgaon in the Punjab, but to which the village schoolmaster and the village leaders are invited to co-operate. The scheme is just brought out. To encourage subsidiary industries is not a legitimate function of a local board, but, as the local board members are not prohibited to engage in such a work, it is proposed to keep this activity as strictly honorary work both for the members of the local board and the like who may assist, if they wish, as a labour of love. As public health, water-supply and communications are being administered by the taluk board, this will not take them out of their way, if they advise in this matter also along with them. There is of course the financial side of the question. Without aid it is difficult to secure working capital for such enterprises. The taluk board cannot of course incur any expenditure in this direction. Therefore, it is proposed to request the Government, that the local co-operative societies may be allowed to give financial aid and work out this part of the scheme in co-operation with the taluk board. The details of the scheme have not been as yet worked out and the views of the Local Self-Government Department have yet to be obtained. But I for one believe that unless there is co-ordination between the various bodies, like local boards, co-operative societies and the like, in each locality rural uplift in all directions cannot be satisfactorily worked out. In ancient India all these activities appear to have been worked out from one local unit. Further, the co-operative societies, besides financing subsidiary industries, can organize to help the producer to send his produce with facility and profit to market centres with the aid of the rural economy organization mentioned above.

Enterprises a farmer can make in spare time.—Farmers of large holdings will ordinarily have full-time work, as they have to prepare the large acreage with manure, etc., look after gardens and so forth. It is the small farmer who finds no work for a few months in the year and who needs some subsidiary engagement to supplement his income. Mahatma Gandhi has introduced a subsidiary occupation, the use of the spinning wheel. There is no doubt that spinning and weaving is a good subsidiary occupation for villagers and in this district most of the agricultural classes wear khaddar or coarse cloth and have been doing so for ages. Many an agriculturist's wife is even to-day seen at the *charka* in several villages. Spinning yarn and separating cotton from the seed is a woman's occupation among agricultural classes and weaving has become the occupation of only a particular class of villagers. To adopt this as a universal secondary occupation cannot be accepted as sound. Local industries and local opportunities have to be taken into due consideration. It will be a loss to the country to allow such industries to die. There are in this district several places with different opportunities of making use of their time. Villagers close to Agency tracts are engaged in making leaf plates. They get the leaves from the Agency and these leaves stitched into plates give occupation to hundreds as the article is in great demand all over the country to which it is exported largely. In such a locality such subsidiary occupation, as the Agency produce can profitably allow them to occupy, can be pursued. They can even cart timber from the Agency in spare time and open depots. In localities where mulberry can be grown, the silkworm industry can be followed. At one time there was a craze when in several places this industry was started. If one starts a thing, every one tries to do the same and in the result all have to give up. Again, lac industry is found in two or three localities; they may be encouraged by finances and improved methods for better and extensive production. Mills have just now become the craze as the number of mills started all over within these few years show. Unnecessary competition due to overcrowding of the same activities has been spoiling. They should be taught first to go in for a variety of enterprise. In places where the weaving classes who are also agriculturists predominate, they are using spare time in weaving. They can be encouraged in these localities to pursue that industry and given such aid as they may be in need of. It is the boast of Pondur in this district that it can produce handspun and woven cloth as fine as No. 200 Glasgow muslin. There is, again, bell-metal industry in some parts and brass vessels manufacture in other places and skin-curing and, similarly, other industries in small scale here and there

and all over the district. Some of these workers are not agriculturists but rural men whose primary occupation is these industries while agriculture in a small way is a subsidiary occupation to them. As has been pointed out, each locality should have such subsidiary industry which local conditions encourage and, where none exist, spinning and weaving is an excellent substitute as a subsidiary occupation.

Co-operative societies alone are the best expedients for financing such local industries as observed. They will have that local knowledge and local interest essential for a sympathetic encouragement of the industry and constant vigilance over the undertaking. I believe the above answer covers the questions 6 and 6-A.

7. There are no joint stock banks in this district. Co-operative societies in this district have no dealings with indigenous banks. The co-operative societies and the Imperial Bank discharge in respect to them mere banking functions. The co-operative societies keep small sums of money in the Imperial Bank. The Imperial Bank gives the co-operative societies overdraft accommodation. That is the relation between the two as the co-operative societies otherwise get their money from central institutions. The co-operative societies have not adequate moneys with them to meet all demands. They require large sums to advance long-term loans which they are not now able to do. Though in the district private persons and local bodies are depositing moneys with them, it is necessary to have this growth accelerated. Lakhs of rupees for this district appears necessary. There are some societies which are not commanding public confidence in certain localities; hence they are not having deposits and find themselves in financial difficulties. There are no joint stock companies in this district. There is possibility and desirability of granting financial concessions as suggested in the question.

II.—Indigenous banking.

1 & 2. There are, broadly stating, two classes of indigenous bankers—(a) the village sowcar, (b) money-lenders in important towns of the district like the Marwari merchant banks and rich money-lenders of the Vaisya community and individuals of similar occupations.

The functions of the village sowcar are stated in answer to (a) of part I. He is the person chiefly dealing in direct agricultural loans on security of crop, land, gold and silver. He is often the owner of land coming through business and the village grocer. He deals on *katas* and promissory notes as stated in answer to (a). He also deals on pledge and also engages on trade of agricultural produce and acts as middleman to agents of firms. He rarely invests in industries which are not his own but he himself is sometimes the owner of a rice mill. His chief occupation is to lend the advances to cultivators, at the various stages of the agricultural operations stated in answer to 1 (a).

The Marwari bankers and town sowcars.—They are pure money-lenders, lending money on promissory notes and on pledge of jewels, gold and silver and on mortgage of immovables. They do not undertake to finance agriculture. They lend to agriculturists also not as agriculturists but as individuals on security for loans advanced and such security on promissory notes is often taken with joint liability of another solvent person. They are money-lenders as a class, though a few sowcars even in towns lend to agriculturists on mortgage or to village sowcars if they are petty sowcars needing their help and unable to secure bank credits. These sowcars of late have dealings with the Imperial Bank where they command large credits by which they finance trade but not industry except on personal and property security.

3. The capital invested by the several indigenous banks will be several lakhs of rupees in the district but I cannot give an approximate figure even.

As regards the extent of their business, the village sowcars practically cover up all the villages and the town bankers throughout the district. Their working expenses are not much. They maintain one or two clerks each and the legal charges they incur are mere advances since they recover them. There is co-operation among the village sowcars dealing with cultivators, who, whenever necessary, make common cause and maintain more or less friendly relations with fellow sowcars though competitors. Among the town sowcars there is no such relation or co-operation. Each is for himself, though they avoid coming into conflict with another's dealings.

Few of the village sowcars have dealings with the Imperial Bank but of late owing to business operations being extensive they try to obtain bank credit as that will be useful to them in marketing seasons. The other classes have dealings with Imperial Bank where they obtain credit and borrow for low interest so that they can lend at high rates and draw large profits. As their business is extensive their periodical collections are ample to repay bank instalments. There is no co-ordination among them.

4. Please see answer to 1 (2).

The form in which the hundis are drawn up can be seen from the samples attached. The forms in which promissory notes and deposit receipts are drawn are also attached.

5. Loans are granted either on promissory notes, pledge of valuables or on mortgage of properties. In the case of promissory notes, joint security is usually demanded if the person is not so very solvent. In the case of pledge from $\frac{1}{3}$ to $\frac{2}{3}$ of the property value of the articles pledged is advanced and in the case of mortgage sufficient security is secured to cover interest.

But ordinarily the loan is not allowed to run for more than three years without payment. Promissory notes are taken with interest allowed to accumulate for a year when it will be added to the principal and a fresh note is taken. In case of gold and other valuable pledges it will not be allowed to accumulate more than it is worth of course and interest is collected every six months or a year. The market value of gold and silver will also be taken into consideration from time to time. All these loans are cash advances.

These indigenous bankers are capitalists themselves commanding some amount of ready money always and also persons having credit with the Imperial Bank from which they obtain their funds to meet demands. But the floating capital is largely their own. The bank is becoming useful to them as with its aid they can float more capital than their resources command.

Deposits.—They allow 6 per cent on deposits received by them if the amount is large or if small 7 $\frac{1}{2}$ per cent.

6. 12 per cent to 24 per cent are the rates of interest which agriculturists have to pay at present to the indigenous banker. These high rates could be put down by organising co-operative societies in every important village to replace the village sowcar.

The reduction of the rate of interest will certainly confer a boon on the agriculturist and better his condition of living and improve land.

7. Yes.

Yes.

Not that I know of.

I believe so, if we look from the point of view of the banker.

8. As I believe that, in the interest of the agriculturists, co-operative societies should replace the indigenous village sowcar and land mortgage banks the town sowcar, so far as agricultural loans are concerned, my answer to the first three parts of the question is in the negative.

As regards the last portion of the question the attitude of these bankers would be against such a measure and would not be agreeable to any publicity if not for any reason for fear of the income-tax offices at least.

9. Will be at least 12 per cent on the capital invested after meeting every incidental expense.

10. No. Sometimes on account of the unacceptability of the security offered and sometimes on account of insufficiency of capital.

12. So far as this district is concerned money is never lying idle in the hands of the indigenous bankers during any portion of a year. They always find employment for it.

III.—Investment habit and attraction of capital.

1. *Banking resources in the province.*—I am not able to speak for the province as a whole.

2. I believe postal cash certificates are all now withdrawn in the district. When they were in use, they were so few in use that it cannot be said to be popular. By increasing rates of interest to make them attractive their popularity can be hoped to be increased and the rates require revision.

Savings bank afford adequate facilities for investments to such as can invest in a small way piecemeal and are a little educated and are able to put by a little every month such as clerks and other employees and who are in need of drawing the amount back at any time and therefore cannot lend to others even though this other course may bring in higher interest. If the rate of interest allowed is increased, they will attract better class of investors with large sums to invest.

Now that the rates allowed by co-operative societies on deposits are far more attractive, there could be no possible competition of Government in this direction.

3. *Government Securities.*—Of the three kinds of Government securities both bearer bonds and stock certificates are not in use in this district. There are only the promissory notes which could be purchased at the local branch of the Imperial Bank or at the Provincial capital. If there were to be no banks in this district, the treasury would sell them but that only at issue time. During issue time a chalan will be issued by the treasury and the amount will be paid on it to the Bank if the Bank is there to receive it. But after issue time, the treasury will have little to do with it as the Bank functions instead. The small investors and small agriculturists can usefully invest in the co-operative societies whose rates are more attractive and who will be within easy reach in rural areas and therefore I am not in favour of attracting them to Government securities as the sums involved are so small.

There are no securities other than Government securities that could be sold or purchased in this district. When people have any money in their hands by sale of produce, they invest either in the improvement of the holding or the increasing in live stock or lend to agriculturists or lend on land with a view to purchase it ultimately or invest in gold. They do not bank the money and ordinarily it will not be in their hands long but it is utilised for any of the purposes mentioned above. This district being a poor district large sums of money are rarely in their hands. Even if large sums are in their hands, they find immediate facilities to lend for interest or invest in trade of produce for profit. During the short time the money is in their hands they secrete it in their houses. The farmers lend to fellow agriculturists ordinarily at 12 per cent on promissory notes or 10 per cent or 11 per cent on mortgage of land. The farmers invest surplus money as mentioned in the previous paragraph. As the ryot population are poor in the district, they rarely have large sums. The little surpluses they get are found to be needed for themselves and there is little distribution of capital among the indigenous population in this district.

4. Cheques are not much in use in the district for the reason that deposits are few in current accounts. As most of the offices have their deposits or funds in the bank, they use cheques and, as most of the officers have deposits with the bank, they also largely use, but among private persons in this district this habit has not grown and on this account the abolition of the stamp duty has no appreciable effect in this district. Educated people who can afford deposits and opening of current accounts, high salaried officers, zamindars and such classes who do not usually invest moneys for interest, use cheques. The use of vernacular scripts will allow an increased use of cheques.

5. Yes, it is of a slow growth.

Failure of the Arbuthnot Bank which scared away many people for years and the failure of several small banks opened in large numbers in or about the year 1908 or 1909 in this district are mainly responsible for the check of this growth, although the tendency to hoard or invest in gold is still strong and investment in productive undertakings will gradually grow as people are better educated to appreciate the usefulness of these investments by propaganda as much as by practical demonstration of such usefulness and utility of improved methods.

The opening of new branches of the Imperial Bank has popularised bank dealings by affording greater facilities within easy reach and stimulated trade, checked hoarding and investment on gold, promoted cheque habit and afforded security for depositing cash and gold.

FORM OF A DARSANA HUNDI.

At sight of this role of Exchange, please pay _____
 or order at _____ (place) the sum of Rs. _____
 (words) _____ for value received in cash.

(Signature)

To

M.R.Ry.-

FORM OF A HUNDI PAYABLE WITHIN A PRESCRIBED PERIOD.

(15) (fifteen) days after date (or after sight) please pay _____
 or order, at _____ (place) the sum of Rs. _____
 (words) _____ for value received in cash.

(Signature)

To

M.R.Ry -

FORM OF A DEPOSIT RECEIPT.

Place _____

Date _____

No.-

Wanted a Deposit Receipt for Rs.-

		In favour of	Period.	Rate.
Silver, etc.	.			
Notes as on back				
Cheques			months.	per cent per annum.

F.D.R. No. _____

Applicant,

N.B.—If this form is not to be used, an ordinary receipt will be provided.

FORM OF A PROMISSORY NOTE IN TELUGU.

సంకరం

నెల

తేదీ

గ్రామం కాపురస్తులు

కొ.

వారికి

గ్రామం కాపు

రస్తులు

గారి కొమారుడు వ్రాయించి యిచ్చిన ప్రామి

సరి వోటు.—

నా అభిప్రాయం నిమిత్తం అనగా

యీ రోజున మీవద్ద బతులు వున్నవని

నూ

లు అతరములలో

రూపాయలు యిందుకు వడ్డీ నెల 1 కి సూచికి రు

లు చొప్పున

అయిన ఆసలు వృద్ధులు మీకుగాని మీ ఆర్థుల పొందినవారికిగాని చెల్లించి యీ వోటు
 పయిన వెల్లు వ్రాయించి వున్నకొందును ఇందుల క్రతిఫలం యీ వెంటనే నగదుగా
 యిప్పించినందున ముట్టినది.

సంతకం.

ఇందుకు సాక్షులు.

పస్తూరీ.

(A translation of a vernacular specimen into English.)

FORM OF A PROMISSORY NOTE.

Promissory note executed by _____

son of _____ residing at _____
 in favour of _____ residing at _____
 on (date) _____

On account of my necessity (mention purpose _____) I borrowed
 from you the sum of Rs. _____ (in words) which I promise to pay you
 or order on demand with interest at _____ per cent per mensem and will take back
 this note duly endorsed by you on its back noting down the payment. I have received
 the consideration of this note in cash.

Signature.

Witnesses.

Written by _____

**Written evidence of M.R.Ry. K. V. RAGHAVACHARI Ayl., B.A.,
B.L., Vakil and President of the Co-operative Bank, Nellore.**

I.—Agricultural credit and credit facilities for small industries.

1. There is no organized system except the co-operative societies, by which the agriculturist in my district obtains finance for the expenses of cultivation. Even the co-operative societies are not freely resorted to, as money is hardly obtained as promptly as from a private money-lender. The agriculturists are not accustomed to have a forecast of their needs so that they may apply beforehand for a loan in a co-operative society. Generally the villager gets all his needs for urgent cultivation expenses by borrowing from the village money-lender.

The policy of the present day co-operative societies is not to lend long-term loans. There are no land mortgage banks to supply this need of the villager. He now, therefore, raises the money needed for 'capital and permanent improvements' only from the local money-lender whose terms depend on the man and the security.

The only source which an agriculturist has during famine season is his local money-lender. No doubt, there is the *takari* loan system but the trouble of getting it is so much that no ryot takes to it. Even when he applies, it takes a long time to get it. He does not get immediate relief therefrom. Further, it is almost certain he will not get the whole of the money he applies for, into his hands.

To a large extent, now-a-days, requirements for kist are met by co-operative societies so far as the society members are concerned.

In my district (Nellore), the usual rate of interest is 12 per cent per annum. There are some villages where money could be got at 9 per cent with annual rests but this rate is a special rate for a favoured few. In the towns such as Nellore, the rate of interest varies from 15 to 24 per cent, especially with Nattukottai Chettis. There are some money-lending firms started after the fashion of the Nattukottai Chetti. They too charge as high a rate. Usually these money-lenders deduct the interest calculated for such a period within which the borrower agrees to repay and give him only the balance. This calculation is at a rate of interest which is usually less than the rate mentioned in the pro-note. Money by these firms is never lent except on the personal security of a surety approved by them.

The part played in agricultural finance by the Government is very little. The Agriculturists and Land Improvement Loans Acts are seldom popular and the Government is not liberal in the disbursement of the loan so as to substantially help the agriculturist. Loans under the Act are given as long term loans repayable in 20 years on equated annual payment system. If this system is enlarged and improved, it may do some good to the agriculturist. If money could be given within a short time—say a week—after the loan application, without his being obliged to tip the village officers and other lower officials, it will greatly help poor ryots. Co-operative societies could be used as the channel for distribution. An annual statement of properties verified by the Co-operative Department and the Revenue Department may be maintained so that the status of the applicant for a loan may be verified at a moment's notice.

The Imperial Bank hardly helps an average middle class ryot. The only people that are benefited by it are the money-lenders, landed aristocracy and persons who pledge their produce. *The opening of branches of the Imperial Bank increased facilities to the money-lender and he is able to dictate his terms to the agriculturist who cannot similarly obtain credit with the Imperial Bank.* Further, the agriculturist cannot be expected to repay his loan within six months as required by the Imperial Bank.

Thus, the extension of the branches of the Imperial Bank in recent times has tended to impoverish the poor ryot instead of helping him. The only institutions that can help them are the co-operative societies. There must

be land mortgage banks in each village which must finance long-term loans to the agriculturist. The short-term loans by the co-operative societies and long-term loans by land mortgage banks are the only two systems which can really relieve the agriculturist. Co-operative banks are really helping the agriculturists to a limited extent. They are now unwilling to advance long-term loans and they are further discouraged by the Registrar.

There are no joint-stock banks in my district financing the agriculturist, except the Nellore Permanent Fund. This is an indigenous banking concern and it is doing very useful business in its own humble way and gives real relief to those that resort to it. But, as it has not many facilities which other banks enjoy, the development has been slow.

The professional money-lenders in the villages lend out on promissory notes and mortgages. Some take annual rests but invariably triennial rests are the rule. Their rates of interest vary with persons, the season and purposes. Merchants who advance money to be repaid in the form of agricultural produce, always fix up the price to be paid for the produce and also an extra measure of grain at so much per rupee besides some discount.

Grain loans are very heavy in certain parts. Twenty-five per cent irrespective of the period of repayment is common. Some lenders of grain collect this rate of interest and also an additional commission at so much per rupee and so forth.

2. The staple crop of the delta tract in this district is rice. Nellore rice is very well known in the whole of Southern India. One main feature of it is its white colour as also its unbroken grain.

The only method of marketing done somewhat in an irregular manner is that adopted by rice-mill owners. They advance monies to the agriculturist at generally 12 per cent per annum. The latter sells the paddy to him. They store the paddy at their mills and mill the same, as occasion requires. They send out 'Dalalis' (brokers who procure paddy on a commission of about Re. 1 per *putti* of 720 Madras measures) from village to village to purchase paddy when it is cheap. The paddy so purchased is carted to the headquarters of the merchant. This storage is largely done between February and July by which time the whole of the paddy produce shall have been harvested and stocked.

Rich landholders store their produce in their own godowns and some of them raise loans from the Imperial Bank of India on the pledge of produce and sell the same between September and December when the prices are generally at their highest.

In some places (in Gudur and Rapur taluks mostly) chillies are largely grown. Loans are given to these agriculturists by either a local money-lender or the Madras chilly merchants. The produce has to be sold to them at generally a rupee or two less than the market rate. The demand for the article may be made whenever the creditor wishes it. The gathering of the crop will be over by June and the produce is stored in granaries. The sales are generally effected between September and December when the price is said to be high. Generally the produce in a particular area is all collected by the purchaser and sent to Madras by boat or train and it is there stored and sold to retail merchants.

3. The value of lands in this district depends mainly on irrigation facilities so far as wet lands are concerned. Garden lands which are fit for valuable crops such as ginger, turmeric and tobacco are more valuable than the lands on which only cholam and ragi and similar crops are raised. Water facilities play an important part in the price of the land.

The price of wet lands varies from Rs. 2,000 to Rs. 500 in this district. Garden lands in which tobacco and ginger are grown are about Rs. 2,000 to Rs. 2,500 per acre, and in a few places it is Rs. 3,000 per acre.

(a) The value fetched for lands sold for non-payment of revenue is very small and valuable lands are seldom allowed to be sold in revenue auction.

(b) The value fetched in an auction held by a civil court is not always the best price. The absence of warranty of title is the main reason for the best price not being obtained. Nobody is responsible to the purchaser for the correctness of the extent sold nor to the soundness of the title in the judgment-debtors. The fact that the lands are sold at the court and not in the villages also accounts for the low price.

(c) The price got for sale by private negotiation will generally be fair.

4. There is no impediment to the mortgage of land and agricultural holdings in my district.

There is a permanent fund based on the Nidhi system which finances on the security of immovable property. The fund raises capital by monthly subscriptions and by fixed and other deposits. The money so got is lent on the security of jewels and immovable properties. The loan is repayable in 84 monthly instalments or 7 yearly instalments according as the parties may originally agree. The rate of interest charged is 8½ per cent per annum. The annual payment is by equated payment system. The whole of the principal and interest is paid up in seven years by these equated payments.

If this Nidhi system is improved and some facilities are given, these Nidhis can do a good deal of good.

The one institution which alone can do any substantial good to the agriculturists is the land mortgage bank.

In every village there must be established a land mortgage bank. The funds for the same must be got by the debenture system. These debentures must be floated in the market by a central agency. There must be a guarantee given by the Government for some time to the debenture-holders. This assurance of a guarantee will induce great many people to invest their monies in these debentures. There will be no loss at all and at no time may Government have to pay anything to meet the loss and the guarantee will be only nominal. In the village, the members of this land mortgage bank must be carefully chosen. People who are over head and ears in debt cannot be helped, if their debts far exceed the value of their property. Those who are indebted, and whose debts are such as can be repaid from out of the income from their property may alone be taken as members. Before they are so made members, their debts must be correctly ascertained and the value of their property together with the full particulars of the property must be obtained. *There must be a legislation creating debts to the land mortgage banks as a charge on the land next only to the Land Revenue.* There must be absolutely no doubt about the repaying capacity of the man out of the income of his property which must remain charged with the debts that may be taken by the man so long as he is a member of the land mortgage bank. Such precautions are necessary so that land mortgage banks may work confidently without any fear of any member running into other debts which will diminish the security offered to the bank for the loans. Further, the member must be made to feel that he has only one source from which he has to obtain funds so that there may be no temptation on his part to run into unproductive debts or launch into unremunerative business. *The aim of the bank must be to supply to the member all money necessary to improve his lands.* He must be given loans by co-operative societies for short-term purposes.

Absence of facilities to take loans for purposes which may be called unnecessary is a great advantage and it will compel the man to borrow only for necessary purposes and that from one organization. There must be also legislation to compel a man to truly and correctly give a statement as to his property and any false information must be made punishable. The land mortgage bank must duly publish the statement and if no objections be received within a particular time, there must be a record made of the man's property and this must be taken to be unimpeachable on any ground whatsoever. Legislation to this effect will put an end to so much of unhappy litigation which crops up now based on the system of *benami* transactions. Record of rights may thus be made and maintained in the office of the land mortgage bank. Working capital of the land mortgage bank must mainly be obtained by debentures. These land mortgage banks may take deposits from the public and other sources.

There must be a guarantee by the Government for sometime for interest to the debenture-holders. Unless this is given, there will not be a free flow of funds by sale of debentures.

From out of the profits realised by the land mortgage banks, a certain percentage may be set apart as sinking fund. When this fund has grown strong, it will be a guarantee for the payment of interest.

Government must put into these land mortgage banks a decent portion of the surplus revenues just as they do now with the Imperial Bank. The Government must buy debentures and also deposit in these banks monies at favourable rates of interest. The money lent to the agriculturist must not carry more than 6 to 6½ per cent, as he is required to pay interest every year.

There may be a legislation or rules framed by the High Court empowering all trust funds being kept in deposit in these land mortgage banks.

5. There is no machinery in this district which gets an estimate of the indebtedness of the agriculturists in this district.

This information can be got by co-operative societies. Now, a statement as to the indebtedness of the members is prepared. It is only a record of the word of the member. A little more attention paid to the matter by the panchayatdars of villages will make the statement more accurate. Similar statements with regard to others also can be prepared.

If only the Government is keen about it, the statistics can very easily be prepared. The village officers will be able to give the figures almost correctly. Through the machinery of the Government revenue officials, a fairly correct estimate can be obtained. The estimate thus obtained may be checked with the estimate which the co-operative societies prepare and then a consolidated account showing the total as well as the individual indebtedness of any particular village can be had with reasonable accuracy.

6. In this district the following industries are being carried on: (1) Rice milling, (2) mica, (3) hand-spinning, and (4) inferior glass-bangles. The last two are done on an organized or on a large scale. There are a few villages in Venkatagiri zamindari bordering on the Chittoor district where material out of which these bangles are made is found. Hand-spinning and hand-weaving is carried on in Kandukur and Atmakur taluks by Panchamas mainly. There are other places where hand-weaving alone is carried on by weavers. There are now at least three centres where *charka* spinning is carried on and *khadder* cloth is woven. They are doing good business. Rice milling and mica industries are carried on by rich merchants or *Kapus* of the district.

Hand-spinning and hand-weaving can be developed to a large extent, provided decent capital for purchase and store of cotton is got, and provided there is an enthusiastic propagandist or supervisor. What has to be done is this: Each spinner must be supplied with carded cotton ready for use for spinning. The yarn produced by him must be purchased by the supervisor at the rate at which it is sold in the market. The yarn so collected must be brought to a place where weavers are working. The weavers must be made to weave the yarn. The cloth produced by him must be purchased at his residence at the price at which it is sold in the open market. The cloth so got must all be collected and sent to places where it is consumed. The business of the organization that I have in view is to enable the weaver to sell what he produces at his very door and without the least anxiety on his part to find purchasers. The supervisor should also be well trained in the art of spinning or weaving so that he may give practical suggestions to the spinners and weavers. This advice may improve him in his art and he must get better return for better production.

One enterprise, above all, which will give employment to the farmer during the off-season is *spinning*. Not only the man, but the woman and child may well employ his or her time in spinning. The family can spin sufficient yarn to clothe the whole family for a year by this use of the leisure hours. Where mat materials are plenty, mats can be woven. I know certain 'Yanadis' of this district make date mats during rainy season when they get no work. Similarly grass mats, The capital required for

all these is very small comparatively and there can be no difficulty in finding a financing organization. One such machinery, I should suggest, must be the co-operative society and another is an association like the Spinners' Association now carrying on work. State-aid must be given to big industries like match industry, glass industry or paper industry.

In some places there is a good deal of white clay which can be used for making porcelain and boot-polish. There is a lot of it in some other districts also. Any Hindu of South India should know that what a Vaishnava Brahmin wears on his forehead known as "Namum" is nothing but this white clay. This clay is now used for making only this "Namum" and not for anything else. The reason is that no attention is paid to find out its possible uses. The possibilities must be thoroughly examined by Government experts and, wherever an industrial use is found for this white mud, impetus by way of State-aid must be given to the people in the locality rather than to a foreigner or to a stranger.

One very important industry which can be opened is *micanite industry* and mica dust industry. Large quantities of thin films are got from the mines. These are cheaply purchased by foreign markets and micanite is manufactured. There is no reason why steps should not be taken in this district and experts who have practical knowledge should not be employed and this industry encouraged. Then again, there is any amount of mica dust available. Now-a-days fine powder of mica is sent out to India from Europe for lubricating and such like purposes. This can be done in this district. For both these, State-aid is very necessary and mica mine owners must think on these lines also and bring into existence industries which will not only bring more money to them but also make the district more prosperous.

7. The relationship that exists between the Imperial Bank and co-operative bank is that the latter gets a cash credit from the former to an extent that is sanctioned by the Registrar of Co-operative Societies. Beyond that there is no other relation. The co-operative bank has some current account transactions with some joint-stock banks, and that is all.

The short-term credit required by co-operative societies is now got from the Central Bank. After the report of the Townsend Committee, the Central Banks are hesitating to advance long-term loans to primary societies. The result is the agriculturist is not much benefited. He has, therefore, to choose two creditors, one for short and another for long-term credit. If the latter is the village sowcar, his position becomes precarious and the result is he is worse for borrowing from a co-operative society for his short-term finance. Long-term loans cannot be given by central banks as their deposits are not permanent and as they get loans and deposits only on short-term basis. There must be an agency to supply long-term credit to an agriculturist and that can only be the land mortgage banks.

To take the whole of the indebtedness of agriculturists in this district, some three or four crores of rupees will be required on the basis that the total indebtedness of this Presidency is 100 crores of rupees.

To stimulate the growth of the co-operative movement, in addition to the exemption from stamp and registrations, there must be exemption of income-tax on the interest realised from deposits in co-operative institutions. Besides this, the money order commission for remittances by one institution to another or by an institution to a member or *vice versa* and also the insurance charges must be exempted. These institutions must not be taxed with profession-tax or super-tax. Power may be given to the Provincial co-operative banks to issue paper currency such as the bank note as is prevalent in England.

II.—Indigenous Banking.

The one indigenous bank (as defined in the questionnaire) is the Fund or the Nidhi. For the present it raises funds by taking share capital which is payable in instalments and by receiving all kinds of deposit. It lends money on the security of jewels and immovable property. Though it is called share capital, what really happens is that money is received monthly for 45 or 84 months as the case may be and at the end of the period the money so paid is repaid with interest. This is the chief means of raising funds.

Money so obtained is lent out to individuals on the security of their immovable property repayable in seven years. There are also short-term loans to individuals on their personal security. No hundi transactions are carried on by this institution nor any other kind of banking business.

Then there are a number of private banking firms started and worked by the natives of the district. There are also the well known Nattukottai Chettis and Marwaris. They mostly employ their own money and sometimes take deposits from private individuals. They lend out monies to others generally on their own personal credit or on the mortgage of their own property and sometimes on the surety of third parties. The loans are repayable in three years generally. There are a few firms where yearly interests are taken. The rate of interest varies from 9 to 15 per cent ordinarily. Higher rates prevail, but such cases are not many.

In the village the money-lenders lend to agriculturists in a similar fashion. Running accounts are maintained by the sowcars and these accounts are settled once in three years generally. Grain loans are given to labouring classes and other poor people at an abnormal rate of interest; generally 25 per cent till the next harvest season is the rate irrespective of the time when that harvest may be. It may even be three or four months prior to the harvest. Sometimes inferior grain is loaned with a condition that superior variety should be returned together with interest at that rate.

One way of reducing this heavy interest is by every co-operative society stocking a quantity of grain in the harvest season, enough to advance to their grain-borrowing members at about 9 per cent per annum, and thus putting an end to these usurious loans.

There is a class of money-lenders in this district who invest monies on cattle trade. Bulls are purchased cheap from one locality. A number of servants and small partners are taken to make the purchases, sell them and realize the price. This kind of business is carried on from about December till April or so. The bulls are given on credit, provided a certain portion of the price is given on the date of purchase. Pro-notes are taken for the balance and collected in three years. This kind of transaction has been going on in this district for a long time. The Imperial Bank gives credit facilities to these people who carry on this trade.

**Written evidence of M. D. MURTRIE, Esq., Postmaster,
Bangalore.**

Cash certificates are not so very popular as one would think they ought to be in the Mysore Provinces, as this kind of investment is only resorted to by well-to-do and educated people. It may be suggested by the way that to popularize the issue of cash certificates and to induce the indigenous people to invest in these securities a sort of advertisement should be broadcasted. Further, a small percentage of commission should be allowed to postal officials as a sort of encouragement so that they might canvass and popularize this kind of savings.

(a) As investments in Post Office Five Year Cash Certificates are akin to fixed deposits in banks, the rate of interest allowed should be on a par with the rate of interest allowed by the banking concerns, not to say that it should be competitive, but to induce people to resort to this sort of savings.

(b) Post Office Savings Bank allows all facilities to all classes of people and it is practically taken advantage of by all literate and a few of those illiterate population who reside in big towns and taluks. I am unable to say whether it is resorted to by the agriculturists as already the Government is educating such class of people in co-operative methods.

The only way to attract the agrarian population of small villages to resort to Post Office Savings Bank is by keeping these banks within easy reach, so that they might be tempted. Also the rate of interest should be a little higher than what it is.

I cannot say whether there is any competition with the other banking institutions as the rate of interest allowed by the Government in Post Office Savings Bank and Five Year Cash Certificates is almost a little less than the banking institutions.

The existing facility for purchase and sale of Government securities is that such a person who wants to purchase Government securities becomes a savings bank depositor wherein the interest on Government securities is added.

(a) I am not aware of facilities afforded by other financial concerns as regards other securities.

(b) The tendency of the native population (age-long tradition) is to hoard and hoard and keep their monies in unproductive values, as jewels, etc. As education advances, surely I can say you can find the people resorting to these kinds of productive investments. Further, the educated class and some of those calculative sections of the population, more or less have an inclination to get a very high return of interest for their values invested and as such they go in for business.

Written evidence of M.R. Ry. THOLASINGA APPASWAMI
Avargal, Municipal Councillor, Madura.

I.—Agricultural credit and credit facilities for small industries.

1. For the purposes mentioned in the questionnaire, agriculturists obtain finance mainly from money-lenders. For purpose (b) alone, Government helps them with some loans under the Agriculturists' Loans Act. In the case of loans obtained from money-lenders interest is usually payable at the rate of 2 to 2½ *kalamas* per year for every one hundred rupees. This will roughly work out at 14 to 21 per cent per annum. The money-lenders lend principally on the security of the land.

For expenses of cultivation monies are advanced also by merchants upon contract of selling the produce of the soil to those merchants in the harvest season for prices then obtaining. In these cases also paddy or money interest ranging within the abovesaid percentages is usually stipulated.

For paying land revenue mostly merchants give to agriculturists stipulating in advance the price at which the paddy should be sold to them. During seasons of failure of monsoons and crops the agriculturist is at the mercy of the money-lender.

Except money-lenders, merchants and dealers and to a very very small extent, the Government, no other financial body plays any part at all in agricultural finance. The present system has the following defects :—

- (a) high rate of interest;
- (b) the ignorant and illiterate agriculturist being placed at the mercy of the heartless and calculating money-lender; and
- (c) the agriculturist having no freedom to choose the vendees of the produce.

There is no co-operation among any of the agencies.

2. There are only two methods of marketing :—

- (a) merchants and dealers take monies and bandies to the threshing-floor and purchase the produce by direct payment there; and
- (b) by sending them to the nearest market-place where—
 - (i) merchants who sell wholesale or stock with a view to sell for higher prices purchase them; and
 - (ii) the produces are sold to consumers directly through commission shop-keepers who charge a small commission for each bag.

It will be advantageous to form agricultural societies with financing agencies supported by Government, in bigger villages situated on main roads, each society consisting of a number of neighbouring villages in which advances may be made for the purposes mentioned in question I and which societies may be made the places of pooling for the marketing of the produce. This will remedy many a disadvantage to the agriculturist both in obtaining finance and in marketing his produce.

Hundis and negotiable instruments do not seem to play any part in the transactions of agriculturists.

Written evidence of the Postmaster, Hyderabad, Deccan.

I have found that the mercantile community in these parts look upon the Postal Cash Certificates as a good investment and money which is not required for business or kept as a reserve against bad times is preferably invested in these certificates. Excepting this community, the bulk of other classes, even including the educated, have an impression that investing money in Cash Certificates is a complicated affair. It is only when a person belonging to these classes purchases a Cash Certificate for the first time that he realizes how simple it is. This has often been expressed to me by some of my acquaintances to whom I explained the advantages of investing money in Cash Certificates. What is really necessary is to create and freely broadcast an attractive literature on the subject written in the simplest manner in English and Vernacular avoiding all possible technical and official language. In this State, there is by far a large number of persons who invest in land and small houses with inadequate returns. There are others who are disinclined to risk investments in private enterprise and who consequently have their small hoardings in cash and ornaments. Orthodox Muhammadans (most of whom are persons of substance in this State) who have religious scruples against accepting interest in a direct way have not much objection in several cases in purchasing Cash Certificates bearing interest in an indirect way. This is an important feature which should not be lost sight of whilst issuing the literature I have suggested above.

The present interest rate of Cash Certificates is quite adequate as compared with the condition of the money market. The only desirable change I would suggest in the existing terms of issue is to allow interest on these certificates at 3 per cent (savings bank rate) after a period of six months instead of allowing no interest for one full year as at present. This change is bound to attract more customers. The savings bank affords all possible facilities to the public. With its numerous branches all over the country and, with a comparatively small waiting of the depositors at the counters, it has a decided advantage over all other similar concerns.

I do not think that any banking concern should have reason to complain against the rates of Postal Cash Certificates. Considering that an investment in the Cash Certificates is on the same principle as a fixed deposit with modifications the rates are certainly not higher than what they are at any of the private banks. The fact is apparently lost sight of that for smaller periods than full five years the rates are correspondingly low.

Government securities as compared with Postal Cash Certificates are not attractive to the small investor. The deduction of income-tax at a high rate on the interest and the delay in converting them into ready cash prevent the small investor from purchasing them. The Postal Cash Certificates are by far more attractive and we ought to make much of them without wasting energy in forming various complicated schemes.

Written evidence of M.R.By. C. RAJAGOPALACHARI Avargal,
B.A., B.L., Advocate and President, Vizianvada Co-operative
Central Bank, Beswada.

1.—Agricultural credit and credit facilities for small industries.

1. The agriculturist borrows for all the purposes mentioned in a, b, c, and for marriages and deaths from wheresoever he can obtain loan: from Co-operative Banks, Imperial Banks or other banks and money-lenders. The rate of interest is generally 12 per cent per annum from money-lenders except Marwaris who lend at Rs. 1-6-8 or Rs. 1-14-6 per cent per mensem. The bank rate of interest is generally between 8 and 9 per cent per annum. The money-lenders lend on pro-notes and mortgages. Marwaris lend on pro-notes only taking sureties. The system of taking standing crops as surety is not prevalent in this district. The part played by the finance of the Government or banks of any kind is only adding another source for borrowing by the agriculturist. The chief defect is in the condition in which an agriculturist is placed. The agriculturist who has a large family with small extent of land not sufficient for his maintenance and the coolie population in the villages migrate to towns and to other countries to eke out their livelihood by working in mills, etc. The middle class and big ryots have to pay abnormal wages for coolies by getting them elsewhere in the cultivation season. The ryot takes the English educated man drawing high salaries and earning large sums as his ideal and acquires false dignity. He hates labour as being beneath his dignity. He and his female members of the family do not do field work. His women begin to observe *gosha* and do not do even household work. They do not go out even to fetch water; but try to imitate the town women in wearing fine clothes and jewellery which is another source of expense to a ryot. In delta villages every inch of land is cultivated wet so much so there is no dry or pasture ground for the cattle to roam or graze. The village *tope* and the village pasture have disappeared. The cattle become emaciated and die. The ryot thus loses the wealth of cattle and time after time incurs debt in the purchase of cattle. In imitation of wealthy officials and non-officials of the town the ryot spends large amounts in marriages by way of dowries. On account of English education and western civilization the people in the towns are leading a high life. Instead of plain living and high thinking high living and plain thinking seems to be the order with the townsmen who are the examples for the ryots in the villages. If an agriculturist is to be redeemed there is no use of piecemeal and patched-up remedies. The root cause of the indebtedness is to be studied. The chief defect therefore lies in the system of Government. Taxation is heavy. Relief is not given in years of bad or failure of crops. The effort of a ryot to get remission can be profitably utilized otherwise. There are innumerable difficulties and great expense involved before a ryot can get remission. From the *karnam* of the village up to the highest official, everybody is interested to get as much revenue as possible to gain distinction in the service. Added to all this difficulty of an agriculturist there are the elections to Panchayats, Unions, Local Boards and Councils which create party feelings and factions in villages resulting in litigation and ruinous court expenses. The establishment of too many courts in too many places easily accessible to the ryots is a great temptation to gamble in litigation. Villagers ranged on either side as witnesses or parties away from the presence of their own villagers, giving evidence in courts against one another with the sole idea of winning the cause they espouse forswear. Truth is gone and with that all morality is gone; and under these circumstances you cannot expect a person to live a bold, straight, simple and honest life. The system of courts must go. Arbitration courts in villages must be established to save a ryot from indebtedness consequent on litigation. The present system of elections must be abolished. A large portion of the revenue of the Government is spent on salaries. When no economy is observed in governing a country you cannot expect the governed to be economical in living their life and be free from indebtedness. Money value is set upon education. Judges, Collectors, Ministers, Executive Councillors, etc., are paid high salaries. Thus big prizes are held out by

the Government before the people. They flock to schools and colleges and obtain qualifications to clutch at the offices. It has become a fashion to go to the West to obtain a qualification to get high and fat jobs. All cannot be provided. Unemployment corps increases. They are unfit to do any other work; but they spend money on their education by borrowing and mortgaging properties. There is a great clamour from the people that money is wanted for this purpose and that. The people must be satisfied but at the same time economy should not be observed by the Government. Abkari revenue is therefore essential to the Government who make the people drink by establishing toddy and arrack shops. The renter whose bid is higher and higher year after year finds means and ways to spread drinking habit among people to earn profit after paying heavy rents to Government. Officials and non-officials in towns take to foreign liquor. It has become the fashion of the day. Thus people spend away money in drinking indigenous and foreign liquor, become ruined in wealth and health. You cannot save people from indebtedness by adopting whatever measures a fertile and ingenious brain may suggest unless you change the whole environment of an agriculturist which can be done by a thorough change of the system of Government and setting before him a proper and correct standard of life. The bank or any other financial institution of whatever sort it may be and however well managed and well conducted, helps only the capitalists investing money in them to earn interest without difficulty and trouble but not an agriculturist who is further reduced into indebtedness by taking advantage of various sources of borrowings at a cheap rate of interest.

2. The crops are marketed by selling to middlemen in the towns called commission merchants who generally advance money to the agriculturist. The food products should not be sold by a ryot till he sees the harvest of next year. Money should be advanced to him by the co-operative banks on the security of produce. The Imperial and other banks in this district give loans to the ryots on the pledge of the produce stored in godowns. Complicated and understandable system of the West as bills, cheques, etc., should not be introduced among the agriculturists in this country.

3. The value of an acre of paddy land in delta villages is from Rs. 1,000 to Rs. 2,000. Lands on which tobacco and turmeric or vegetable are grown are sold at Rs. 1,000 per acre. The lands on which dry crops are raised such as chulam ranges from Rs. 100 to Rs. 400 per acre. This is the price in private negotiation. In court auction the prices which the lands fetch are generally low due to various causes, the chief of which are want of due publication, combination among bidders and absence of warranty of title. The prices in private negotiation depend upon various circumstances such as nearness to towns, good communications and thick population.

4. There is no legal impediment to the mortgage of lands and agricultural holdings except the antique and out-of-date Hindu and Muhammadan Law. The Hindu Law suited to the conditions of the ancient times when there was no individual ownership of property is sought to be applied to the modern conditions of society, where the individual is the integral entity. In spite of the various inroads made on Hindu Law by the British courts the impediments for the free and absolute enjoyment of property are many. The joint family system, the fact that the son from the moment he is in the womb is a co-sharer with the father and that widows and daughters should inherit property with limited interest are great stumbling blocks in the way of unrestricted enjoyment of property. Among the Muhammadans a number of persons taking as heirs with complicated shares and that none except a father or grandfather can act as guardian of minors without recourse to the Guardian and Wards Act are impediments in the way of free alienations of property.

There are the land mortgage banks in this district—one at Gudlavallaru and another at Vadlamannadu. The capital is raised by the sale of debentures and receiving deposits. The ownership of lands must appear from the owner's names being recorded in the Government revenue and zamindari accounts. The best way of effecting the same is to oblige the ryot and the landholder and the Government to exchange *pattas* and *muchilkas*. The Estates Land Act and the Revenue Recovery Act must be suitably amended.

5. This is too much of detail impossible to fulfil. The idea underlying most of the questions is that the Government must always be a trustee for the people who deserve to be under perpetual tutelage. When a person applies for a loan then his indebtedness may be ascertained by a verified statement from him and by making independent inquiries. The indebtedness of a village can be ascertained by each villager making a written report to the village officer the loans he has taken on pain of prosecution for default or untrue report as in the case of birth and death reports. The debts are largely due to money-lenders, professional money-lenders such as Marwaris and in a lesser degree to the banks such as the co-operative, Imperial and Indian Banks. The rate of interest is generally 1 per cent per mensem simple.

6. The agriculturist is not engaged in any industry. The industry of rice milling and cotton ginning exists in towns as a main mercantile industry. Such industries established in towns and big villages by importing machinery denuded villages of their labour and small landed population. These industries have not brought prosperity to the country. They brought insanitation in the towns, immorality among factory population and drunkenness. They made a few people rich who lead a high luxurious and wasteful life. Formerly the ryot used to pound paddy in his house. He got the husk for fuel and the bran for his cattle. Vitamins in the rice used to be retained. Nowadays you see the despicable sight of a ryot selling his paddy in towns and buying milled rice of factories which have no vitamins. In the case of cotton ginning the ryot and the female members used to gin it in their house, cord and spin it and give the yarn to the village weaver for weaving clothes. Formerly villages were self-contained. The villager got all his wants satisfied in the village itself. The wealth of the village was conserved. Now even for the clothes he goes to towns to buy. You cannot, by any system of financial help, help a ryot to be prosperous unless the whole system of the Government is changed. Piece-meal remedies are mere shibboleths. Every villager must obtain the finished product for his food and clothing in his house. Any kind of machine industry for these purposes must disappear.

7. The ryot must look only to the co-operative banks for financial help either for short or long term loans. Other banks should not serve him. The money of the Government that now flows into the Imperial Bank must in justice go to the co-operative banks. The co-operative banks are intended mainly for the benefit of the agriculturist who is largely represented in its management.

III.—Investment habit and attraction of capital.

The investors are mostly the official and lawyer class. The capitalists in the villages lend to the villagers on high rates of interest and do not invest in the banks. There is a tendency among the above official and non-official classes to carry on private money-lendings as the interest they get on investments in the banks are low. The interest which banks should pay to the investors must be 6 per cent per annum. The banks lend at 10 annas or 12 annas per cent per mensem. The banks are not able to pay decent interest to the investors as their establishment is large and costly. There is no economy in the running of the banks. As I have already premised the bank management is as costly as the Government governing the country. There is the Sanskrit proverb "Yathā Raja tathā Praja."

Written evidence of M.R. Ry. R. S. VAIDYANATHA AYYAR
Avargal, B.A., Tahsildar of Ambasamudram.

1.—Agricultural credit and credit facilities for small industries.

The questionnaire circulated to me is so extensive in its sphere and so technical in some of its aspects that I feel very much diffident to traverse the entire field, or to do full justice to the subject within the short time allowed to me and the difficulty is all the greater, by reason of the fact that I have not had any direct or practical experience of banking or co-operative work anywhere. But having conducted extensive economic enquiries into the conditions of the agricultural population in the Trichinopoly district during the recent resettlement operations of that district and having had ample opportunities of studying close at hand the wants and difficulties of the agriculturists in four other districts, viz., South Arcot, Tanjore, Madura and Tinnevely, I may perhaps venture to submit some of my views on the question of establishing land and agricultural banks so as to provide financial facilities to the large body of agriculturists whose growing indebtedness has just begun to arrest general attention throughout India and more particularly in this province. The question of solving, or at least minimizing, the agricultural indebtedness of the Madras ryots has been engaging the attention of the Government and the people for more than quarter of a century. Twenty years ago, when I applied to, then Mr. now Sir Frederick Nicholson for guidance and advice in connexion with "The Madras Takavi Manual" which I was then preparing, he referred me to his "Note on Agricultural Banks in Japan" and his "Report on the Land and Agricultural Banks in the Madras Presidency" and wanted me to explore that field and develop that idea in my book. But as the scope of the work I had then on hand was limited to the laws and rules relating to the grant of State aid to land and agricultural improvements and the book was subsequently taken over by Government and issued as a Government publication, I was obliged to exclude this debatable and at that time comparatively little known subject from that work. Since then, however, much water has flowed under our bridge and almost everybody now sees where the ryot's shoe pinches and is busy with exploring the ways and means of rehabilitating the agriculturists who are extremely conservative, not only in their habits and thoughts, but also in bearing their burdens and undergoing their trials according to immemorial custom.

2. *Cultivation expenses.*—When the agricultural year begins, the first thing that stares at the face of the ryots is the cultivation expenses to be met for the season and for the year. Taking the figures for fasli 1336 (1926-27) for the Tinnevely district alone, it will be seen that out of the total ryots' holdings of 1,041,220 acres of dry lands and 182,606 acres of wet lands, 453,959 acres of the former and 169,606 acres of the latter were actually cultivated in that year. The ordinary cultivation expenses of an acre of dry land vary from Rs. 15 to Rs. 30 according to the conditions of the soil and locality and the industry of the ryots. Similarly, the expenses for cultivating an acre of wet land vary from Rs. 30 to Rs. 50 according to the irrigational conditions of the tracts and according as the lands are single crop or double crop. These expenses include only the cost of the seed and the cost of ploughing, manuring, sowing, transplanting, weeding and harvesting and exclude the permanent outlay on ploughs, cattle and the like. Taking the average cultivation expenses at Rs. 20 per acre of dry land and Rs. 40 per acre of wet land, the total approximate capital required for the cultivation operations of a year in this district alone works up to—

Dry lands Rs. 4,53,959 × 20 =	...	...	...	...	90,79,180
Wet lands Rs. 1,69,606 × 40 =	...	...	...	...	87,84,240
					<hr/> 1,78,63,420

or roughly 1.79 crores of rupees. This annually recurring expenditure is incurred by 274,944 *pattadars* in the district whose average holding works up to only 3.76 acres of dry lands and 0.66 acres of wet lands or 4.42 acres for both wet and dry. Though it may appear somewhat strange, it is still

an undoubted fact that 93 per cent of these *pattailars* are ryots paying an assessment of Rs. 30 and under, as will be seen from the following figures :—

Rs. 10 and under	...	...	...	...	209,175
Rs. 30 and less but over Rs. 10	...	...	...	...	48,190
					257,365 (93 per cent)
Over Rs. 30	...	...	...	...	9,462
Over Rs. 50	...	...	...	...	5,415
Over Rs. 100	...	...	...	...	2,702
					17,579 (7 per cent)

They form the numerically large body of agricultural landowners and are what are called the middle class people.

3. *Existing facilities for financial help.*—The question arises how these poor ryots are able to meet the enormous recurring expenditure required for cultivating their holdings from year to year, *pari passu* with the maintenance, by each, of an average family of 6 members, of whom 2 boys have to be educated, 2 girls to be married and any two members may be expected to die in the course of two decades, especially when these economic units of holdings are slowly undergoing a process of dis-integration from generation to generation under the Hindu Law of equal division of property. The writer of the Statistical Atlas for Tinnevely District, 1923, says:—"The average size of the holding has decreased from 5.40 acres to 4.42. Such a result is of course to be expected with an expanding population and the Hindu system of partition of property." These peculiar conditions of the middle class families are mentioned here only to show that borrowing is more often their normal feature than saving.

The debts which these families require are of two kinds:—

(1) Short-term floating advances for annual cultivation expenses recoverable within the year.

(2) Long-term loans for other family expenditure.

There are at present no recognised Banks in this Province or any district which make advances of the first kind. In some villages, no doubt, a few rich landholders who possess some reserves in their hands make advances to the poor ryots for cultivation expenses and recover them from the next harvest in a true spirit of mutual good will and sympathy; but in this *Kalivuga* all rich men are not good men, nor all good men rich men, and whether rich or good, their purses are not long enough to meet all the local demands. And it is exactly here that the village indigenous banker plays his havoc by making short-term advances to the needy ryots and charging a modest interest of one anna per week for every ten rupees! and as poverty and honesty always go hand in hand, these advances are always punctually repaid with the stipulated interest either in kind or in cash without documents and without resort to courts.

4. *Village Banks.*—If the present proposal to establish land and agricultural banks is to ensure the greatest good of the greatest number, I would strongly urge the opening of what are called "Village Banks" if not in all villages all too suddenly, at least at the headquarters of each sub-registrar's office. There are at present 588 sub-registrar's offices in the Presidency, each serving an average area of 214 square miles. This number of village banks is neither too few, nor too many for the Presidency to begin with. If these banks are provided with working capital by Government, they can very easily attract from the people within their local areas a good deal of subscribed capital which now lies immobile on account of distance and distrust. I have suggested the headquarters of sub-registrars' offices as centres for these village banks, because they are the places which are most frequented by all persons having land and money transactions together with their scribes and witnesses, day in and day out, and which offer the greatest facilities for ascertaining the worth, solvency and *bona fides* of the debtors and the value of and the previous encumbrances on lands offered as security.

The functions of these village banks should be mainly—

- (1) to attract local capital in the form of shares and deposits,
- (2) to serve as savings banks for occasional withdrawals,
- (3) to make short-term advances to *bona fide* agriculturists on easy interest repayable in one year,

- (4) to develop the cheque habit among the rural population,
- (5) to facilitate remittances to other villages in exchange for products received, and
- (6) to serve as an executive and consultative body in the case of long-term loans transacted by the district land bank.

I am not quite sure whether this idea of opening village banks will be found practicable or not, but my own humble opinion is that any scheme of land and agricultural banks intended to serve the needs of the large body of agriculturists in the country should begin from the bottom and not from the top.

5. District Agricultural Banks.—Next as regards the long-term loans on mortgages of real property, the application may first be made to the directors of the village bank serving the local area. They can easily conduct the preliminary enquiry into the solvency and worth of the applicants and the value of the security with reference to the information available in the local sub-registrar's office or in villages which always lie within a radius of 7 miles from that place and the applications may after full enquiry be submitted to the district land bank with the recommendations of the directors of the village bank concerned. The district bank will then be in a position to sanction or reject the loans applied for and to place the required funds at the disposal of the village banks for disbursement of the sanctioned loans. The village banks will also serve as the agency to collect all loans within the local areas whenever the instalments fall due.

6. Linking up the Village, the District and the Presidency Banks.—In this way, I would spread a network of banks in selected agricultural areas, all connected with and co-ordinated by a Presidency bank under Government control. This will also facilitate the remittances to be made by agricultural traders from place to place by bills of exchange, cheques and the like. A Presidency bank or a district bank without branches in villages will only serve the needs of a chosen few, such as, proprietors of encumbered estates, influential persons very near insolvency and debtors in urban areas. They cannot extend their long arms to bring the distant sufferers within their fold.

II. Indigenous banking.

7. The Brahmin Bankers of Kallidaikurichi.—Here I should make a brief mention of the famous Brahmin bankers of Kallidaikurichi which is about a mile from Ambasamudram. There are about 100 bankers in this village who make advances of loans on pro-notes and on mortgages with or without possession to the extent of about Rs. 20 lakhs every year. Till recently, they were making large advances to traders from the Travancore State, but have now minimized their transactions in that direction and are now concentrating their operations on mortgages of real property. The demand for loans in this village is said to be so great that they very rarely hold any immobilo money in their hands for more than 10 or 15 days and when they are obliged to retain any reserves for more than a week, they send them to the private banks and a few selected indigenous bankers in Tinnevely. Very few of them have invested any money in the Imperial Bank of India as the latter does not pay any interest for short periods. The hundi system, no doubt, prevails in this village, but not to any appreciable extent. I am informed that they issue hundis only for about Rs. 4 lakhs and receive hundis for about Rs. 1 lakh in a year, but no hundis from strangers not having transactions with them are honoured nor are overdrafts allowed. Some of them carry on trade in yarn and cloth, but in that field they only act as brokers between the Koilpatti and Papanasam Mills and the local weavers in Kallidaikurichi and Ambasamudram. It is, however, a matter for surprise that such a large body of indigenous bankers in one village are able to carry on transactions to the extent of about Rs. 20 lakhs a year, without a local bank, without much resort to other banks and without bills of exchange, cheques and the like. Some of the bankers whom I have consulted are very keen about the establishment of land mortgage banks by Government and I believe that a village land bank in this locality will attract a good deal of local capital and link up these indigenous bankers with the other banking centres to be established under the scheme of land and agricultural banks.

8. Value of lands.—The resettlement reports of the several districts prepared on the basis of the registration statistics show that the value of lands has considerably increased almost everywhere. I have made a close investigation of the value of lands in the Tanjore, Trichinopoly and

Tinnevely districts in the course of my official duties and find that there is not much difference in the value of dry lands which is about Rs. 100 or Rs. 150 per acre in all the three districts. The value of wet lands in the Tambrapurni system is however nearly double that of the same class of lands in the Cauvery delta. From my enquiries I learn that, while the yield per acre of wet land in the Tambrapurni delta is only about 20 per cent more than that in the Cauvery delta, the value of wet land per acre here is about 75 to 100 per cent more than that in the other two districts. The average value of wet lands in the Ambasamudram taluk is about Rs. 3,000 per acre, while that in Tanjore or Trichinopoly is only Rs. 1,500 per acre. I have not yet had time to investigate the actual causes of such a large variation, but it seems to me that it is mainly due to the absentee landlordism more largely prevailing in the Cauvery delta and the strong inclination of the ryots of the Tambrapurni delta to stick up to the soil at any cost. I have not got the figures for Tanjore and Trichinopoly ready on hand, but here in Tinnevely the cultivating landowners form 29.2 per cent of the total population and non-cultivating landowners only 3.2 per cent. This shows that the district does not suffer so much from absentee landlordism. There are practically no sales of land for arrears of land revenue in this district, nor any cases of lands bought in by Government for want of bidders. Under these items Tanjore and Trichinopoly appear to take the lead in the whole Presidency.

9. *Development of local industries.*—The only products which contribute to swell up the internal and external trade of the district are paddy, cotton and palmyra products.

First as regards paddy, the figures in the accompanying statement which, though not strictly accurate, still furnish a fair and approximate estimate based upon the facts and figures readily available, will show that this district produces annually a net stock of paddy worth 3.26 crores of rupees after meeting the expenses of cultivation and the payment of land revenue on wet lands. This is the stock available for local consumption as well as trade. Almost the entire population of this district is said to subsist on rice. If this be so, the quantity of paddy required for consumption alone at the rough and ready rate of Rs. 7 per head will be:—Population $1,901,396 \times 7 =$ Rs. 1,26,00,772 or Rs. 1.26 crores.

There will then be left paddy worth 2 crores of rupees available for trade in and outside the district.

Particulars of paddy cultivation, production and stock in the Tinnevely district—

	ACS.
Lands cultivated with one paddy crop	181,677
Lands cultivated with two paddy crops	120,910
	<hr/> 302,587

	RS.
Value of paddy on single-crop lands at Rs. 120 per acre	2,18,01,240
Value of paddy on double-crop lands at Rs. 200 per acre	2,41,82,000
Total value of paddy produced in the district ...	<hr/> 4,59,83,240 or 4.60 crores

Deduct—

	RS.
1. Annual cultivation expenses at Rs. 30 per acre first crop	54,50,310
2. Annual cultivation expenses at Rs. 50 for second crop	60,45,500
	<hr/> 1,14,95,810
3. Land revenue on wet lands	18,54,474

Total deduction

1,33,50,284
or 1.34 crores.

Net value of paddy available for local consumption and trade Rs. 3.26 crores

More or less the same quantities of paddy should also be available in the districts of Madura, Trichinopoly and Tanjore. Statistics of sea-borne and rail-borne trade are not readily available here. But one peculiar feature of the paddy trade in the southern district of the Presidency is that, while all these districts enjoy quick transport facilities by rail and sea, the trade itself has no organization behind it. Immediately after harvest, hundreds of paddy merchants go round villages and even to other districts with hundreds and thousands of rupees on hand, purchase paddy for ready money payments from the ryots and then arrange to carry it to their destination, partly by road and partly by rail. The ryots in the rural parts are also eagerly waiting for the arrival of these itinerant merchants or their agents and then dispose of the paddy for whatever prices the merchants may dictate. If the merchants do not visit any villages or tracts, the stock on hand in those localities remain idle. When the prices are high, the merchants are slow to purchase and when the prices are low, the ryots are not eager to sell, with the result that the stocks in the rural parts very often suffer loss by warehousing, depreciation, damages and theft, not to say loss of interest during the period of immobilization. The merchants themselves sometimes do not know where to buy cheap and where to sell dear and are, not infrequently, put to much loss. Somehow the trade is still going on sometimes too briskly and sometimes too slowly according to the immemorial custom of the Nawab days. Though the southern districts are often called the Granaries of the Presidency, there is nowhere any granary worth the name. In order to place the paddy trade of these districts on a better footing, I would strongly urge the establishment of several co-operative granary societies in all the paddy-producing districts of the Presidency on the models of those working in Germany and Holland. The *modus operandi* of these granary societies will be found in books dealing with that subject.

Cotton.—The area under cotton in this district is 146,438* acres. Taking the average yield per acre at Rs. 35 excluding the cost of cultivation and assessment the total value of cotton produced in the district may be estimated at $146,438 \times 35 = \text{Rs. } 51,25,330$ or roughly about half a crore of rupees. Fortunately this product is well under control in the markets. There are 3 cotton mills at Papanasam, Tuticorin and Koilpatti, 3 cotton presses in Tuticorin and 24 ginning factories in Tuticorin and in the Sankarankoil and Koilpatti taluks. Nearly the whole quantity produced in the district is exported as raw cotton, while only a small quantity is turned into yarns of 26 count in the mills of the district.

Palmyra.—The acreage under palmyra in the district is 41,244 acres. This is apparently the area shown in the village accounts as palmyra forest or *topes* which contain on an average about 250 trees per acre, young, rough and smooth. At this rate there ought to be 1.03 crores of palmyra trees in the district, excluding the innumerable scattered trees found on porambores, assessed waste and patta lands all over the districts which may be roughly put down at about 22 lakhs of trees. The District Gazetteer prepared in 1917 estimates the total number of trees in the district at 9 millions. A rough estimate of 1.25 crores of trees may not be much outside the mark twelve years later. Making ample allowance for young ones and old trees past bearing, there may be about $7\frac{1}{2}$ millions of trees in the district which can yield useful and marketable products. What are the facilities now existing in the district to make gold out of dust in this line? Though an ancient Sanskrit poet sang of the 801 uses to which the tree can be put the only uses now made of it are tree-tapping, basket-making, rope-making and the manufacture of jaggery and sugar. The account of the palmyra industry given at pages 220—226 of the District Gazetteer is not very encouraging and it appears clear that the industry is on the decline and all indigenous efforts made to improve the sugar industry in particular have proved unsuccessful. Here is a wide field for exploitation by organized efforts on a co-operative basis with sufficient financial help from land and agricultural banks.

* Statistical Atlas of the Tinnevely district, 1921.

Written evidence of M.R. By. P. RAMAN Avargal, Managing Director, The Uthara Kerala Bank, Limited, Tellicherry.

I.—Agricultural credit and credit facilities for small industries.

1. For expenses mentioned in paragraphs (a) and (c) of question 1 agriculturists borrow money on pledges of ornament or on the security of the crop they raise or on contracts for delivery of paddy at exorbitant rates of interest very much to the benefit of the lender or at Rs. 8 or so for 100 *edangulis* of paddy when the price is Rs. 10 in the market. Agriculturists do not go in for big outlay for permanent improvements in Malabar, such as irrigation works. The rate of interest varies according to the status and necessity of the borrower. It is never under 12 per cent. It is not unusual to have 18 per cent, and it is often 24 per cent or more.

No help is rendered in agricultural finance by the Banks or Government to my knowledge.

It is not possible to give an estimate of the total amount of capital required in the districts for the purposes mentioned. There is no co-ordination. There is indeed much scope for improvement.

2. Principal crops to be considered are paddy, pepper and coconuts and their by-products. As to paddy it is not sufficient even for local consumption, and hence there is no scope for marketing it out of the district. As to pepper it is shipped to foreign countries by European firms doing business here. In the majority of cases advances are received from the firms by local Indian merchants, who, in their turn, lend out money as advances to lesser proprietors and lessees of pepper gardens, and the sale, when pepper is matured and harvested, goes from the bottom to the top. In several cases, especially in small holdings, pepper is sold soon after the buds are formed on the vines very much to the disadvantage of the seller. It is no doubt a speculative sale and purchase, but it is being done. It would be well if banks, with fairly good working capital, according to local needs, are started in the interior parts to advance loans on the security of crop and when harvested the crop is in the bank's possession till the loan is liquidated. Such banks can succeed only if bigger banks can finance them on small interests, and the only bank which can afford to give such patronage is the Imperial Bank, which, I believe, gets larger loans from Government for no interest or only on very small interest. What is popular in the internal trade is ready cash, either coin or currency notes. We are unable to say anything precisely about hundis as we do not deal in them. We feel our way cautiously in the market and so we do not go in for transactions in hundis which are at times risky.

3. Speaking broadly, the value of land depends on the nature of the soil, its physical situation, its proximity to the town and its accessibility. In several cases it depends also on the fancy of the buyer or his need for a house for himself and his family. We may, however, put down Rs. 3 to Rs. 6 for an area of paddy land yielding a *varam* (rent) of one *edangali* (2 Calicut seers) of paddy.

The purchaser of land sold for arrears of Government revenue is a little more safe and secure than the purchaser of the other two classes. In the other two classes there is always the risk of defective title.

In North Malabar paddy cultivation and crop growing are the chief factors taken into consideration in estimating the value. The fact that other crops are raised is not of much value in assessing the price of the land.

The value of *parambas* (garden lands) is estimated by the value of improvements on them, the net yield per year, and its suitability for habitation, etc.

4. There is no land mortgage banks or agricultural banks in this district to our knowledge.

5. It is not at all possible even with a semblance of accuracy to reach an estimate of the existing indebtedness of the agriculturists in the district. Where the indebtedness is reduced to writing and registered, some estimate can be had from the records of the Sub-Registrars' offices, but most of the debts are contracted verbally or under unregistered bonds or on pledge of jewels, etc., and how to get an estimate of them?

There are people who were once efficient farmers but are now reduced to tenants at will and their property has passed into the hands of creditors, but it is not possible to trace them. They are so conservative that they do not wish to reveal their name and status and their fallen state.

6. Agriculture will occupy a tenant only for about one-third or half the year. The remaining part of the year can well be utilized, if he is enterprising and thrifty, for some other remunerative work—some cottage industry.

II.—Indigenous banking.

We are unable to furnish any useful information regarding indigenous banks.

III.—Investment habit and attraction of capital.

People make and give ornaments to their children, not chiefly or wholly for show and pomp, but as an investment for future necessity. Ornaments can easily be converted into money or money raised on them at any time. There is no risk of fraud.

On the whole we would suggest the liberal financing of all the Indian banks now existing by the Imperial Bank and to open more small banks with the assistance of Imperial Bank in the interior parts where produce is abundant. The arteries of trade may be made elastic by the circulation of cash and money may be brought to the agriculturist at his door without an intermediary.

**Written evidence of M.Ry. M. GOVINDAN, Manager,
The Tellicherry Bank, Limited, Tellicherry.**

I.—Agricultural credit and credit facilities for small industries.

1. (a) By borrowing money from money-lenders and merchants dealing in the produce.

(b) Money is not borrowed for capital and permanent improvements, but only for ordinary and usual expenses.

(c) Special needs are defrayed by borrowing. The rate of interest varies from 12 to 30 per cent and more, the lenders taking advantage of the great need of the borrower. The loans are repayable by giving produce of the coming crop, paddy, cocoanut, or pepper, for a price which turns out to be very low.

No financial help is given by Government, by Imperial or other banks; merchants and dealers supply money on conditions stated above.

I am unable to give estimate of capital required for above purposes in this district.

Defects are (1) poverty of cultivators, (2) high rate of interest and (3) want of Government help.

Remarks.—Co-operative societies for credit and distribution at cheap rates, (2) more liberal working of Agriculturists Loans Act, which at present is almost a dead letter in this district. No credit agencies except the above in this district and no co-ordination.

2. The chief products in this district are paddy, cocoanut and pepper. Paddy produce is insufficient for home consumption—large quantities, are imported from outside.

Cocoanut—forward sales are effected at low rates and often for periods of more than one year to merchants and dealers on account of poverty and need of the producer.

Pepper—partly by forward sales on above conditions and partly sold to local merchants and dealers, who act as intermediaries to wholesale dealers and export companies.

Possibilities.—No possibilities at present of pools and co-operative efforts in marketing, but producers require education on the subjects.

Part played by bankers, etc.—The Imperial Bank chiefly discount bills of exports on the security of produce shipped or railed to foreign parts.

The indigenous banks give no help in marketing produce. The only facilities are discounting bills and hundis.

When goods are shipped or railed, the bill of lading or railway receipt is sent through the bank together with bills drawn for the probable value of the goods. Documents of title to goods are delivered to the consignee only on payment of the amount of the bill or hundi. The reduction of stamp duty on bills and hundis is desirable.

In this district there are only ordinary hundis payable at a fixed period. No special forms. Bills and hundis are discounted by banks generally. In big centres they are discounted by dealers also, who pay the amount, take delivery of the goods, sell and recoup their money.

In this district, only bills of lading and railway receipts are used to raise money during marketing in foreign countries, but no documents of title are used in local marketing.

No difficulties are experienced in the use of the above instruments.

3. The value of land depends on the locality, for paddy it varies from Rs. 3,000 per acre in towns to Rs. 500 per acre in villages.

For pepper from Rs. 1,000 per acre in towns and Rs. 50 per acre in villages and forest tracts.

Cocoanuts. Similar as in the case of pepper.

The factors influencing price of land in all cases are—

- (1) facility of communication by road, railway, etc.,
- (2) labour available for cultivation,
- (3) distance from human habitation and
- (4) health of locality, e.g., freedom from malaria, etc.

Large tracts suitable for pepper cultivation are available in North Malabar in the interior eastern parts of the district, which lie uncultivated chiefly for want of railway communication with the interior and existence of malaria.

4. No legal impediment.

5. No estimate of indebtedness. Government can prepare it.

Indebtedness mainly due to professional money-lenders, merchants and dealers.

Rate of interest high, often turning very high as stated above.

Properties are sold for debts by private sale or court auctions and thus efficient farmers lose their holdings.

This prevents efficient cultivation.

6. No allied or subsidiary industries at all in North Malabar except country oil-mills.

Improved coconut oil-mills could be started; hand-loom, dairies, poultry and bamboo matting can be resorted to.

Friendly co-operative societies, credit and productive.

6-A. No personal knowledge of any of them.

II.—Indigenous banking.

1. Chiefly loans on security of gold and silver and personal security. Bills are also sometimes discounted for mutual remittances of money.

2. Hardly any assistance given.

6. Only security of gold, etc., at a rate of interest varying from 12 to 24 per cent and usual credit, higher rates.

Reduction would confer benefit certainly.

7. Some prejudice. They have fewer deposits and more loans. They are conducted on sound lines.

8. To improve indigenous banks more reliable auditors should be insisted on.

9. The net return about 8 to 10 per cent.

10. They are forced to refuse for both reasons.

11. Imperial Bank.

12. There is not much money, idle or unused.

III.—Investment habit and attraction of capital.

1. Banks available, besides Imperial Bank of India, Nedungadi Bank, Calicut Bank and Uthara Kerala Bank.

Lotteries called *kuris*, savings banks, insurance and co-operative societies are for encouraging investments.

Yes, they are provided with facilities.

2. They are popular. Higher rate of interest will increase the popularity.

3. Generally officials and middle classes resort to savings banks, etc.

3. Surplus not usual. If there is, it is given on loans, sometimes invested in trade, rarely in agricultural improvements.

4. Among the agriculturists there is no cheque habit, nothing to deposit.

5. Yes.

Cause—they have little to invest, low interest, insecurity of indigenous banks.

(1) Productive undertakings, (2) spread of technical and scientific knowledge through cheap vernacular publications, (3) expert advice, (4) co-ordination of methods of cultivation and agricultural information prevailing in different districts, (5) experimenting in ryots' lands more than in Government isolated farms, (6) opening up interior parts of districts by railway communication, (7) assigning of Government lands free of assessment for a certain period in the beginning, (8) better protection of crops from wild animals, (9) better testing of soils at cheap rates, (10) information as to manures, (11) cheaper medical relief for agriculturists, (12) starting of agricultural communities in every village and (13) permanency in holding of lands.

Exhibition has given an impetus to trade.

**Written evidence of M.R. By. V. V. GOVINDAN NAYAR Avargal,
B.A., L.T., ex-Member, Malabar District Board, and Member, Excise
Licensing Board, Calicut.**

1.—Agricultural credit and credit facilities for small industries.

1. In regard to agricultural credit, the system that obtains at present in the rural areas of Malabar, and particularly in my taluk of Ernad, is more or less of a primitive kind, which, in my opinion, requires to be put or placed on a more rational basis consistently with the refined ideas of modern age. The cultivating tenants form the largest majority in regard to association with agricultural work and it is very natural as well as essential to provide reasonable facilities for the extension of agricultural credit to them.

Under the present system there are, broadly speaking, three ways in which the agriculturists in my district obtain financial resources, namely, Loan Bonds (കടം വാഗ്ദായം) promissory notes and co-operative credit. As regards the first method, this is generally availed of in the month of Karkatakam (July-August), the month of continuous rain and absolute want for the average peasant. The loan generally taken is in the shape of paddy from the middle-class landholder for a consideration which works out a profit for the creditor at the enormous rate of 120 to 180 per cent per annum. This will be evident from the fact that every ten *paras* of paddy borrowed in Karkatakam the borrowing tenant has to return 12 or 13 *paras* in Kanni (September-October) barely two months after the transaction. The individual loans of this kind generally range from 5 *paras* to 20 *paras*, a quantity just sufficient to keep the borrower and his family from absolute starvation for two months. It has to be said here that the average cultivating tenant has no other resource in the intervals between two crops (Kanni and Makaram) of a year than to depend upon such loans. In most cases he has no other means of earning a livelihood, I believe, on account of the absence of facilities in such a direction.

Next comes borrowing on promissory notes. This is generally in the form of a money loan and repayable within short or long periods subject to the maximum limit of three years. The interest generally levied in these cases is at a percentage of 12 to 24 per annum, the interest being payable at the end of every year. This form of credit is availed of by that section of the cultivating tenantry which resorts to dry cultivation of crops such as ginger, etc., and in such cases the borrower is enabled to repay the loan after the period required for gathering, marketing, etc., of the produce and realizing the proceeds thereof.

The next and the only other method of borrowing adopted is, as we all know, comparatively of recent date, namely, co-operative credit system. Though it has a very high aim of helping the needy agriculturist from his sorry plight, it has to be confessed that this is only so inconsiderably small in its actual operation that help does not reach most of the needy cultivating tenants. At present it gives facilities to only a few who are able to find the required number, generally two persons, to stand surety for them by taking a minimum number of shares required. It is also unfortunate that the authorities concerned frequently recommend loans only to those who have property and other credit in the locality so that help does not reach the really needy and hard-working tenant who, though wanting in such property or resourcefulness, may be relied on to repay the loan by his application and hard labour. This is really discouraging, if not disappointing, for there are such hard-working tenants who are reduced to destitution and misery by being practically kept out of the benefits of the system.

I have stated above the case of the cultivating tenants in general whether the loan taken by them is for any of the purposes in (a), (b) and (c) in general. But I may add that the difficulties really become accentuated when there is a failure of monsoon.

Cases of permanent improvement for which the tenant wants loans are few and far between, a fact which calls for serious consideration the necessity to provide sufficient facilities at least in the future. I am of

opinion that the Government Co-operative Department should concentrate more attention hereafter on the necessary efforts to be made so as to ensure the extension of the system to its utmost possibility among the large mass of the cultivating tenantry. There is also, in my opinion, great and pressing need for providing Government Agricultural Banks with independent capital from which loan should be granted on reasonably small rates of interest. Although in stray cases agricultural loans are granted by Government at 6½ per cent, the cases in which this advantage is derived by the needy tenant are indeed negligibly few, the disadvantage in this case being the absence of facilities which a regular local bank could give for direct dealings.

Generally speaking, the average permanent cultivating tenant has the initial resources to meet expenses during the cultivation. As I have already stated, he has hardly any resources for making permanent improvements under the peculiar primitive system already referred to.

As regards loans for meeting land revenue, there is hardly any necessity for them as the demand for the revenue is met by the *janmi* or the landholder except in a small proportion of tenants who happen to be landholders in a considerable scale and are therefore in a position to find the necessary resources independently by themselves.

In general, the cultivating tenants in rural parts have no dealings directly or indirectly with the Imperial Bank of India or the joint stock banks or banks of other descriptions except in so far as has already been referred to with reference to loans from Government and through the agency of co-operative credit societies, so that they depend almost entirely for their financial resources upon the abler and richer landholders of the same locality.

In my opinion a capital of about Rs. 10 lakhs to be supplemented by deposits from the public would be required for organizing a district agricultural bank with a fair number of branches in important rural areas to meet the requirements of the agriculturists as stated before.

The one outstanding defect in the existing system seems to me to be the steady impoverishment and increasing destitution of most of the tenantry in the rural areas of the district. It is therefore very unfortunate that perseverance and industry should be rewarded in this fashion.

2. In regard to the method of marketing principal crops in the district, I regret to observe that there is hardly any organized system now in vogue. What, if at all anything, exists, is the arrangement which some European firms in the district have made by appointing their own agents to collect and transport to their warehouses the indigenous products of the district. If sufficient facilities are given in the shape of organization, there is no doubt that the hard-working peasant of the district who raises the various products would be enabled to find a reasonable profit for his industry. This is only in the case of products such as ginger, pepper, nutmeg, cashewnut, etc. As regards paddy, there is generally only internal transport within the taluk or district itself as the crop is hardly sufficient to meet the local requirements.

It is certainly very desirable that satisfactory arrangements should be made in the direction of formation of pools and co-operative organizations for marketing produce. I think one or two important centres may be established in each taluk so far as existing transport facilities would warrant. The Government should arrange to establish a safe and responsible agency to help the producers in every way without adding to their difficulties in the marketing of their produce. If this were done, the really hard-working producer would not be deprived of his due share of profit. (There are no direct dealings with banks in connexion with marketing work, the producers generally coming to make arrangements of their own with agents of European firms or big merchants.)

It is certainly necessary to make suitable provision in regard to the proper use of negotiable instruments in carrying out the various agricultural and other works in the district. It would also seem desirable to effect reduction of duty also on bills. Hundis certainly play an important part in regard to financial transactions in the marketing of produce. I am aware of two classes of hundis in general. In one case the amount is advanced for a period of 27, 57 or 87 days or any period less than 87 days, the actual net amount paid to the drawer being that which remains after

deducting beforehand the interest for the period at the rate fixed, the cost of the hundi paper and a small sum for charity or such other object as the money-lender may prescribe. In several cases a party is unable to meet the demand on the due date and driven to the necessity of renewing the hundi which in essence means binding himself to pay compound interest generally at a very exorbitant rate. It is not uncommon to find that an amount due by a hundi borrower may double itself if renewed three or four times and then the poor borrower is entirely at the mercy of the money-lender. This is indeed most pitiable and ought to be discouraged.

The other kind of hundi is an instalment system, the re-payment being made by instalments either daily, weekly or fortnightly as the case may be. This fact, however, finds no mention in the hundi itself, but is a private arrangement between the lender and the borrower. Here also there is great loss to the borrower. The habit of executing hundis under pressure of circumstances and of renewing them when unable to meet the demand in due time has brought rack and ruin on many a respectable trader or businessman who has to work on borrowed capital.

Generally the following is the wording of a hundi: --

Calicut,
10th September 1929.

Rs. 300.

At (57) fifty-seven days after date we jointly and severally promise to pay Messrs. S. Doraiswamy Iyer & Bros., or order at the Imperial Bank of India, Calicut, the sum of Rs. 300 (three hundred only) for value received in cash.

(Signed) V. Rama Iyer.
(Signed) R. Narayana Iyer.

V. Rama Iyer, B.A.,
Vakil, Calicut.

R. Narayana Iyer, B.A., B.L.,
Advocate, Calicut.

Hundis are generally used only in urban areas of the districts and do not seem to find favour with the rural population. The discounting of hundis is generally done through independent or professional money-lenders, middlemen, etc. I understand that rarely hundis emanating from a locality find their way to provincial centres where they are discounted.

As regards the instruments of ownership of goods and produce and other documents employed for raising money, I am aware of the following, namely, (1) bills of lading, (2) railway receipts, generally received by V.P. post, and (3) railway receipts obtained by other means. The use of these instruments is not always convenient, for the holder of such an instrument will not part with it unless he gets actual payments and very often the person who requires the goods to be released is placed at a disadvantage by delays, borrowing on heavy interest, etc. To avoid this, it would seem to be necessary that some bank or co-operative society should help him in getting possession of the goods and also in their transport to the proper market, money so required being lent on very easy terms. It is in this matter that Government assistance is imperative.

3. Lands may be generally classified as wet and dry. The former are almost wholly used for paddy cultivation and, generally speaking, fetch a minimum value of Rs. 2,000 per acre where it involves the disposal of the *jannam* rights themselves. The value of dry land, on the other hand, varies in a large measure as between such land situated in urban and rural area and with reference to the purposes for which it may be employed. ~~Regard being had to the circumstance,~~ the value of dry land may be said to vary from a minimum of Rs. 50 per acre to a maximum of Rs. 2,000 per acre, if not more, for in towns which have a tendency to grow from year to year the value of dry lands for building purposes is permanently on the increase, and I know an acre sometimes fetches five or six thousand rupees. Besides this, dry land may be classified under garden land and those for fugitive cultivation.

As regards several factors affecting the value of land, I have to state that they vary very much. (a) For instance, when the land is put up for auction for non-payment of revenue it generally is knocked down for a price which is but a small fraction of the real price. The reason is obvious and betrays an amount of heartlessness in the Government official concerned whose interests seem to be circumscribed almost entirely within the narrow bounds of the Government demand which might very often be incomparably low with reference to the value of the land. For instance, if the Government dues be Rs. 100, a land that is worth ten times this amount would easily be knocked down by the person who bids for it anything above Rs. 100 thereby doing an act of inexpressible injustice to the rights and interests of the poor tax-payer who may have occupancy or proprietary rights over it. The case falling under subdivision (c) as regards sale for court decree also bears a similar character. The only safeguard to the occupants or owners affected in such cases is the prospect held out to him by the condition that such sales are not finally confirmed until after one month and six months respectively from the date of auction sale, and he has an opportunity of redeeming the land in question by depositing the amount along with the incidental expenses pertaining to the Government or revenue or the Court decree. As a remedy for such injustice I may suggest that it be prescribed that in all such cases the official concerned who conducts the sale should not be guided by considerations based upon only the rights of the Government or the Court but upon the larger ones possessed by the occupants or the owner, as the case may be, as to the amount which should be offered at the outset during the auction. Such price must certainly bear a reasonable relation to the prevailing or the market value of the land in question in the particular locality concerned. As regards subdivision (c), I have almost little to say for in all such negotiations it is natural to expect the parties concerned to safeguard their interest in the best manner feasible and is therefore no ground for regulation or legislation. Generally speaking, transactions following under this subdivision really bring to a fair standard the value of land which is the subject-matter of this subdivision.

4. I am not aware of any legal or other impediment to mortgage of lands, etc., in my district except what may be incidental to the interest of individual members of a *tarwad* of which the *karnavan* may for some reason or other make an attempt to mortgage land belonging to the *tarwad* without consulting the wishes of other members. In such cases, however, the action of the *karnavan* would be subject to revision by Court or other authority if the *anandaravans* are able to show before a court of law that such mortgage was not necessary for the purpose of the *tarwad* as a whole. In a few cases where the property is the trust pertaining to a *sthanam* or religious institution, there is certainly a legal impediment in the way of the manager effecting any mortgage of land belonging to such *sthanam* or institution. His control is generally restricted by the extent of the income or rental that may be derived from such property.

There are no land-mortgage banks or agricultural banks in my district for the provision of long-term credit. This is indeed a great desideratum and the earliest opportunity should be availed of to establish such banks in the various taluks of the district. Most of the evils and handicaps which landholders generally are suffering from to-day may very rightly be traced to the absence of such a provision. There is no exaggeration in my saying that many respectable small landholders have been reduced to almost absolute destitution for want of such facilities, being driven by exigencies to fall within the merciless clutches of unscrupulous money-lenders.

I would make the following suggestions as to the lines on which such banks may be established and worked in my district:—

(a) Important centres, at least one in a taluk, should be fixed for locating them in consultation with the wishes of the landholding community.

(b) They must be supplied with sufficient capital to meet the exigencies normally arising or those arising in times of failure of monsoon, etc.

(c) The length of credit may be prescribed from a minimum of five years to a maximum of 25 years.

(d) The rate of interest shall not ordinarily exceed 4½ per cent per annum.

(c) The borrower should be allowed the option of repayment by annual or such periodical instalments per annum as may be feasible to him under the circumstances of each case.

(f) In cases of failure on the part of the borrower to carry out the condition as to the repayment of the loan, the steps to be taken should be confined to what may be absolutely necessary for the recovery of the instalment or instalments which may happen to be due at the time and nothing beyond. This is particularly so because it is expected that the defaulting party would have tendered sufficient security for the fulfilment of his obligations, so much so that the bank concerned would have no reason to apprehend any possible loss on the capital loan amount.

In regard to measures for improvement in the record of rights, etc., following under subdivisions (a) to (c), I have to state that in all matters which are not borne out by records in Government Registry offices it would seem to be necessary for the bank concerned to institute proper enquiries locally in respect of the rights and titles of ownership, etc., of the applicants for loans and also to demand of them such testimony as they may be able to offer in vindication of their rights. I think that the working capital of the proposed mortgage banks may be derived from all the three sources referred to in (a), (b) and (c). It is out of the question to consider the utility of debenture bonds hereof of any guarantee particularly as regards the principal. The Government may be secured against loss if the authorities of the bank concerned exercise sufficient circumspection before advancing the loan as regards the solvency, inalienability, etc., of the rights and titles of the intending borrower.

5. It is not possible to arrive at a reasonably accurate estimate of the indebtedness of the agricultural classes. It would, in my opinion, be necessary to organize a census with the object of gauging their individual and general economic financial conditions. What we should aim at, should be to remove the chronic poverty of the mass of peasantry and try to raise the standard of their living. Banking facilities on a reasonable scale that would meet the requirements of each rural area should be provided without delay.

As regards the purposes for which debts are incurred by these classes I think they are covered by sections (a) to (c) in most cases, the remaining ones being rarely met with in Malabar. As already stated above, the only creditors who are approached by the needy are the middle-class landholders who are fairly in good condition. There is no doubt that the present state of affairs does in a large measure take away from the actual cultivator the incentive to produce more and in an efficient and better manner.

6. There are but very few small subsidiary industries practised by the rural agriculturists of Malabar. The only ones worth mentioning are garden produce and dairy farming on a small scale, but in neither case is there anything done on an organized scale. The remaining questions under this head will be answered by the fact that it is only when sufficient inducements and financial facilities are offered that the average cultivator can be expected to betake himself to supplemental industries on any appreciable scale. It would be useful to provide facilities for encouraging, particularly among the womenkind of the villages, supplemental industrial activities such as dairy farming, hand-spinning, coir-making, etc. I should also suggest the opening of small industrial schools in important villages where carpentry, blacksmithy, weaving, etc., may be taught to the children of the peasants.

7. The co-operative banks have certain arrangements with other banks in the headquarters of the district, for financing themselves in cases of necessity by recourse to what is known as the 'overdraft' arrangement. Even this, I believe, is only resorted to on a comparatively small scale. So far as my knowledge goes the Malabar District Co-operative Bank has large funds at its command in the shape of deposits made by private parties as well as by local boards and other public bodies. I think that there is every necessity for extending the advantages of the co-operative movement throughout the district so as to bring it within the reach of a much larger proportion of the needy and helpless people. I would also in this connexion state that the sphere of usefulness at present is very narrow and limited as already stated in the earlier part of the answer.

II.—Indigenous banking.

In regard to indigenous banking there is very little of it in the rural areas for agricultural loans on any appreciable scale. Banks and bankers under this category are generally found in urban areas and their operations are mostly limited to financing traders. In recent years a few enterprising and moneyed *jammis* have opened banking concerns, more because of the fact that they would bring a better return for their money than their ancestral methods of investment in lands, etc. This, of course, while enriching them considerably, has led very appreciably to increase the poverty and destitution among the cultivating tenants. Practically speaking, such banking is only a synonym for organized swindling. These indigenous banks are started generally with a small capital and have dealings with one another for mutual financial arrangement. The loans that they grant are ordinarily small in amounts on pro-notes and more often on gold or silver security. The expenses for conducting these banks are proportionately small or inconsiderable.

5. There is no particular principle which regulates the granting of loans by these banks or bankers. It is generally opportunism that they try to make the best of.

6. Certainly a better organized banking system including Co-operative and Government Agricultural Banks will certainly minimise the existing evils regarding the rates of interest and other conditions. I am not much interested in encouraging the existing system of indigenous banks or bankers. I am almost certain that the whole fabric will topple down or be conducted on proper principles when the suggestion as to the opening of properly organized co-operative or agricultural banks come into existence.

III.—Investment habit and attraction of capital.

This is indeed a very essential matter for consideration. Every effort should be made to encourage thrift and the formation of the investment habit among the poor peasantry. The Post Office Savings Banks certainly do a great deal in this direction but the rate of interest allowed being small there is not sufficient inducement for the investment of this kind, and I fear in good many areas there is no facility for such investment also. Investment in Postal Cash Certificates would seem to promise greater popularity if a decidedly better rate of interest is allowed on the investment. It is certainly advisable to reduce the purchase value of this certificate from Rs. 7-12-0 to Rs. 7-8-0 for every ten rupees. The five-year arrangement has the further advantage of giving a certain degree of satisfaction to the investor as to the economic position which he would arrive at, at the end of the period. The Post Office Cash Certificates and other Government Securities are certainly bound to become popular in the villages if the peasants are correctly informed and realize for themselves the advantages of such an investment.

I am not to add anything else in the shape of answers or opinions on the subject. I must, however, candidly affirm here that it is really a solemn duty the Government owe to the agricultural population in the country to do everything that lies in their power for its amelioration and general welfare. This community has been groaning under numerous disabilities for generations past and it is not safe to keep them discontented and unhappy any more. Even at present, signs are not wanting of many members of the community trying to give up their ancient occupation and migrate to towns to seek a better and more lucrative profession. The tide of such a feeling in the country should not be allowed to advance further, for, it will be really imperilling the future economic resources of the country. Proper banking facilities will certainly do a great deal to improve the existing condition in villages and I heartily wish complete success to the programme that the Banking Committee has before them for the betterment of the financial condition of the agricultural and rural population.

**Written evidence of M.R.Ry. K. L. BANDHARI Avargal,
B.A., Vakil, Coondapoor.**

1. Co-operation, well organized, can not only aid in increasing the output of the agriculturist but also help him in proper marketing. The credit needs of the tenant, the labourer and the small artisan can be met through this organization. The only drawback in the proper development of this organization is insufficiency of competent and honorary human material to act as guide and friend. This defect can in the present conditions prevailing in the villages be got over by the State intervening and arranging for the village headman and the village teacher being made *ex officio* governing body members, and the other three panchayatdars being elected by the general body, one of the latter being the president. No progress seems to be possible unless arrangements are made to pool together in a central place of the village the produce of the village and for advancing moneys until the time of marketing. For this purpose State-owned buildings may be constructed in the village which will serve as a reconstruction centre for the area.

2. My district is full of banks registered under the Companies Act. All the banks are faced with surpluses. They finance mostly trade, and small debtors get money from them on pledge of jewels. Their volume of business is Rs. 75 lakhs outstandings, and the share capital may not be less than 5 lakhs of rupees. Big loans are sometimes in a few cases issued on the pledge of agricultural produce as well, stored in godowns. The rates of interest on deposits at present do not exceed Rs. 6-4-0 per cent for two years, or more. They command the confidence of the people. There is no difficulty of securing finance at any time. There are sufficient facilities for investment of savings. The habit of investing in silver and gold is being given up gradually in favour of productive investments. No change seems to be necessary on postal cash certificate rates of interest. This district being mainly agricultural, paddy crop and coconuts, are the main products. In view of the income from the above, temporary loans and credit are obtained for the payment of assessment or rent, purchase of clothing and such other needs, and these are wiped out after the sale of the produce. Farmers do lend to agriculturists only rice and such other produce to be returned at the time of the next harvest. No cash money generally stays with them for even a month. The banking and investment habit is of slow growth in India because of the want of safe means of communication and transit till very lately.

Written evidence of Rev. T. C. WITNEY, London Mission, Salem.

I am in receipt of your questionnaire. It is impossible for me to answer some of the questions, which are of a technical character outside my experience. It would have been possible for me to illustrate some of my points if time had allowed me to get together the full particulars of cases which have come under my notice. But as this is impossible I must to a large extent generalize.

Most of the cultivators, coolies and others live from hand to mouth, without any attempt to save money. They trust to realizations from crops to supply them with necessary funds from time to time. This is due partly to a general spirit of improvidence, but also to a poverty so great that there is seldom any surplus to put by. Even if there were, there is no safe place in which to put money. The result of this is that if anything goes wrong in his calculations, if the crops fail through lack of rain, or a bull dies, or there is some special family expense, the man has no reserve to fall back upon and is compelled at once to borrow. There may occasionally be men in the village who can lend him money, and there is sometimes a co-operative society. But his usual resource is the money-lender. His rates of interest are high, but he has the great advantage that he will give the necessary money at once, whereas the co-operative society may not be able to provide it in time. There is, for example, the possibility that the society itself may be in debt to the bank from which it draws its funds, the members having failed to pay up either capital or interest with regularity. It must unfortunately be remarked that the cardinal principle upon which most borrowers in this country go is that money is only to be repaid on compulsion, and so long as there is no pressure brought to bear upon him a man will let his debt go on, and allow the interest upon it to accumulate without bothering his head much about the future. Hence the difficulties into which co-operative societies so often get, and their frequent lack of power to help the individual in a time of specially urgent need. So the borrower goes to the money-lender. The latter takes full advantage of the urgent need of the applicant, and the incapacity of others to help him, and fixes a very high rate of interest. Rates of interest that have been quoted to me are 3 per cent per mensem on a simple promissory note, and 2 per cent per mensem on land or other property, i.e., 24 per cent to 36 per cent per annum, not taking into account the fact that some of the interest is available to the money-lender for re-investment during the year. In the towns, among the servant class, one anna per mensem is often charged on every rupee, jewels being held as security, and only returned when the full capital has been repaid. This works out to the rate of 6½ per cent per mensem, or 75 per cent per annum. The debtor naturally finds it very difficult to repay the money under such circumstances, as it takes him all his time to pay the interest. Where property is involved the sowcar will often show a spurious kindness, not bothering the debtor to pay the interest and allowing it to accumulate. The debtor is only too content not to be bothered. But presently the creditor calls attention to the debt. Things have gone so far by this time that the debtor cannot even clear off the interest. So this is added to the principal, and the same rate of interest charged on the whole until at last the creditor closes and takes the man to court, securing thereby the whole property mortgaged, and often leaving a debt over which the man has somehow or other still to repay, perhaps through the help of relatives. He, of course, has also to pay the costs of the suit. This was, of course, the real object of the money-lender.

It is difficult, of course, to know how to deal satisfactorily with a situation of this kind, as the fault does not lie all on one side. The creditor is rapacious, but the debtor too is lacking in conscience where money is concerned. It is largely a moral problem. But it is probable that the hopelessness of repaying borrowed money in full may lead to indifference in regard to it, and it seems to me that the first thing is to deal with the money-lender's rates of interest. It should be made illegal to charge more than a certain amount of interest, and when cases are brought to court the rate of interest should only be calculated according to the maximum allowed by the law. Even then there may be cases of high interest which

do not come to the notice of the court, for the creditor may renew the bond, adding the former interest charged according to rates of his own, and when the document comes to court it will only show so much principal at such a rate of interest. It is difficult to know how to deal with this directly. The sowcar is a necessary person, for if he is not there to lend money, the cultivator, always liable to loss owing to the uncertainty of the weather, will not be able to live in times of drought. Further, if his business is not profitable, he will not carry it on. So, while the rates of interest allowed, taking into account the slowness and uncertainty of repayment, cannot be too small, yet they should be very considerably limited by law.

It would be more satisfactory still if the savings bank principle could be extended in such a way that it would be easy for a man to deposit money at once when he has it and for short periods, some interest, even on short time deposits, being given to encourage him in developing thrift. As suggested in the questionnaire, this might be helped by making the transfer of money in country parts an easier and less expensive affair. Looking at it merely from the individual's point of view, the rates charged for money orders are very high, and the regulations covering insured letters are rather too complicated for the average ryot. Could not country banks be established which would undertake the delivery as well as the banking of money, so that a ryot might go to one, deposit money and give the address to which it was to be sent, receiving a proper receipt for it, and so end the matter? In the case of illiterate men, this would be far simpler than the present process which involves writing an envelope, addressing, marking and sealing it in a special way, etc. The actual transfer of money between the banks would not necessarily be very great, though there might be a good deal of account keeping. Still it would probably be a cheaper and simpler method and one the illiterate man would understand.

These banks should be primarily agricultural banks, giving loans for proper purposes, chiefly on improvements to crops, fields, on seed and implements, etc., and accepting mortgages on land and property as security. They should be strict in their exaction of interest to prevent debts from growing, and they should combine the functions of loan banks, savings banks, and offices for the transmission of money, one function helping the others. Their rates of interest should be sufficient but not crippling.

The co-operative banks might still continue, for they are not likely to compete with the agricultural banks. for their chief function at present seems to be to clear off previously existing debts, or provide money for family expenses such as weddings, etc. I doubt whether they are much used for improvements to land, etc.

In conclusion, I may say that, in my opinion, the one great reason for the backwardness of India in industrial affairs is that, as long as money-lending is such a profitable business fetching interests varying between 30 and 50 per cent, it is unlikely that rich men will put money into much less profitable investments in industrial affairs. So, unless the profits of the sowcars are strictly and severely limited, the bulk of the capital in India will be used to fleece the cultivators and coolies and will not be available for industrial development, and the wealth which may be expected to come with it.

**Written evidence of the Secretary, Katary Veera Saiva Lingayet
Union Bank, Limited, Katary, Nilgiris.**

I beg to acknowledge receipt of a series of questions you sent me to answer for the Provincial Banking Enquiry Committee and I give here-under what part is played by the above bank with a few suggestions.

1. The above bank was registered as Joint Stock Private Company under the Indian Companies Act in 1921, and is doing good work with a small paid-up capital of say within Rs. 50,000.

2. The following deposits are received in the bank:—

Savings bank account at Rs. 3½ per cent per annum.

Temporary deposits for 6 months at Rs. 6 per cent per annum.

Fixed deposits for one year at Rs. 9 per cent per annum.

As the ryots in this part are mostly poor we do not receive much in the way of the above deposits.

Dividends paid on shares range from Rs. 12 per cent to 18 per cent per annum according to the income of the bank.

3. The bank has opened stores—provisions, etc.,—giving the ryots provisions, etc., at a cheaper rate.

4. The bank has also opened a small estate to enable a few of the ryots to work in and earn their daily wages.

Note.—This bank has not sufficient funds and a loan of a lakh of rupees at Rs. 6 per cent interest if granted from Government to this bank will enable the bank to give further and better facilities to the ryots in the vicinity.

5. Loans are chiefly applied for by the ryots for cultivation and to pay off their old debts incurred as a result of mostly failure of crops.

6. *Marketing of crops.*—Private merchants come and buy the crops and sell them either at Mettupalaiyam or Coimbatore, etc. No reasonable rates are obtained for the crops. The chief crops are: potatoes, coffee, tea, and eucalyptus oil and other minor produce.

7. Loans are issued by this bank on shares, immovable property, jewels, and pro-notes at an interest of 14 annas, 1 rupee, Rs. 1-4-0 and Rs. 1-8-0 per cent per mensem respectively.

8. Poorer class of people get no help from any one either from Government or from other banks—as the issue of loans either by Government or by other banks are under certain rigid conditions.

9. I suggest that the ryots be given more help in the way of finance, as the present way of helping them by Government, and by co-operative banks seems inadequate.

**Written evidence of M.R.Ry. P. S. SUNDARAM AYYAR Avargal,
Pleader, Municipal Councillor and President, Co-operative
Urban Bank, Limited, Periyakulam.**

1. I am confining myself to the district of Madura rather than to the province. At the beginning of the season, the cultivator has to start with nothing. His mainstay for funds is the local money-lender, a sowcar, a private bank, a wholesale merchant, a grain broker or a co-operative society if there is one. In the case of the first three, he has to pledge his wife's jewels and execute promissory notes or other securities for amount borrowed. Usually these amounts include future interest or discount till the stipulated period of repayment or the harvest season. Some grain solatium is also added. As soon as the harvest is over, the cultivator has to sell away his produce for the least profitable price, so as to escape any penalty consequent upon default. At the end, the cultivator is left almost nothing for his future livelihood. In the next two sources of supply, the cultivator bargains for an abnormally low price before he can receive the advance. The creditor presents himself at the threshing floor to reap his first charge. In these cases also, the cultivator is no better. As it stands to-day, it may with pride be said that the co-operative institution does him real help. It lends him money just enough to meet his needs at a rate of interest ranging from one and a half to one and three-fourths pie per rupee per mensem. The loan is made repayable at a time when he can dispose of his produce to the best advantage in open market. This enables the borrower not only to repay the debt but also to lay by his future maintenance till the next season.

(a) This category constitutes the main burden of the cultivator. He has to borrow money at exorbitant rates of interest on the security of his immovables including the holding. This has to be repaid at inconvenient periods. The actual saving capacity is not taken into account and the result is the mortgagee files a suit for sale and the property slips away from the mortgagor. There are very few exceptions to the rule. Joint stock banks are, in practice, no way better than ordinary money-lenders. Co-operative societies are not able to meet the needs as they themselves are not able to command long-term deposits or loans from investors. True, some limited liability banks drawing large deposits and for long terms can come to relief but even then the longest period of repayment is only five years. But these are very few. To my mind the latter class of banks is not an adequate relief for a small holder. Land mortgage banks which can do sufficient service in this direction have not been started in this side of the province and hence nothing can be said definitely about them now.

The sources provided by the Government for supply of funds for this purpose are not freely resorted to on account of the long delay and the circumlocutory procedure involved.

(c) The 'special needs' referred to herein are met from the same sources as for land revenue. The produce is sold at the threshing floor and the revenue paid. Loan and sale societies registered under the Co-operative Societies Act may give some relief. The societies take grain as security and advance certain percentage of the value as loan and enable the borrower to repay the same as and when the sale of the commodity is most advantageous to him, of course with a first charge on the sale proceeds for their loan.

The normal rate of interest in this district ranges from 12 to 24 per cent per annum and it depends on the status of the borrower. The period of repayment of loans under classes (a) and (c) varies from six months to one year. Loans under class (b) are made repayable between two and five years. Usually personal security is accepted under normal conditions; standing crops, jewels and other pledges are offered and accepted sometimes. But any loan under class (b) is secured invariably on the mortgage of immovable properties. The Government advances loans under two special Acts, the Land Improvement Loans Act and the Agriculturists

Loans Act. With the experience that I have gathered, I may confidently say that people resort to the Government in very few cases. No doubt the Government allows a sufficiently long term for repayment but the processes and the channels through which the loans have to be obtained are (legally or illegally) costly, not to speak of the long delay in obtaining the loan. This side of the Government is more an appendage in name rather than in reality.

The Imperial Bank and the joint stock banks do not play any part in this area in the matter of agricultural finance. The part played by co-operative institutions, indigenous banks and bankers, professional money-lenders, merchants, and wholesale dealers has already been described supra.

The agricultural indebtedness in this district may roughly be estimated at about Rs. 8 crores. So far as I am aware, there seems to be no co-ordination among the various credit agencies though there seems to be no antagonism amongst them. Also no scope for improvement in the direction of co-ordination seems to be possible as all the agencies except the Government and the co-operative bank are profiteering concerns.

2. The main crops in this district are taken to important markets for sale. These markets are frequented by leading wholesale merchants having their centres in busy parts of the district. As already observed, wholesale merchants who advance loans to the agriculturists on the security of future crops take them away to their godowns for sale at profitable rates. Others who do not make any advance visit the markets, choose the grain and take away the same at a rate slightly higher than in the case of advancing wholesale merchants. Loan and sale societies already referred to take these crops and stock them not purchasing them actually, but advancing loans on such securities at a standard percentage of the value. The societies sell them at such rates and such periods favourable to the borrower and under his supervision. In some places, communal organizations take a leading part in pooling the products for sale at convenient seasons. The Kallar community is one such in this district. They stock the things at Theni.

The co-operative stores working in many centres are not able to do anything tangible in this direction. In 99 out of 100 stores, they are not sufficiently financed and they are not also properly manned by business men. There are also legal impediments to their going in for the articles on credit, which means a higher rate of interest than what is provided in the by-laws. Joint stock banks may be able to do real work in this direction as security is offered in the commodity for sale. But mufassal banks do not take any interest in the matter, as, in some cases, the articles are apt to decay or a shortage is likely to occur. Loan and sale societies may be advantageously organized and worked in such places, in addition to the agricultural lease societies. The facilities that now exist are all on one side, namely, the lender.

3. In this district, paddy fields may be safely valued at Rs. 800 to Rs. 2,500 per acre. Dry lands range from Rs. 70 to Rs. 200, in cases where the land has to depend upon rain only for water. Garden lands range from Rs. 800 to Rs. 2,000 and hill properties range from Rs. 50 to Rs. 1,000, where coffee and cardamoms can be cultivated. Plantain cultivation is also costly, much the same in value. Various circumstances go towards affecting the value. Sources of irrigation, the indebtedness of the owner, the capacity of the ryot to discharge his debts irrespective of the property, the weight and the duration of the encumbrances existing over the property, the proximity or otherwise of the same to the habitations, the segregation and the smallness of the holding, the cost of cultivation and similar other causes affect the valuation.

Properties sold for arrears of revenue or for rent fetch 1 to 5 per cent of their real value. The village officers are responsible for the result. No due publicity is given of the sale. Some hangers on of the village officers are collected together and a farce of the sale is gone through. Oftentimes, some hanger-on happens to be a purchaser for a few rupees of a land measuring some acres of nanja or garden land.

Court sales are a little better. They fetch from 40 to 60 per cent. The distance between the court-house and the village, the long period between the date of proclamation and the sale, the want of a guarantee

for title are matters affecting the value in such cases. Private negotiations stand on a different footing. They almost always fetch a fair price, except in cases falling under the purview of section 53 of the Transfer of Property Act or sections 53 and 54 of the Provincial Act.

4. As it appears to-day, the only impediments to a private mortgage of the lands are found in the provisions of the Revenue Recovery Act and the Estates Land Act. The Revenue Recovery Act passes the holding free of any encumbrance whatever, in the case of a sale for arrears of revenue. The other enactment passes a free title, free of all encumbrances, except where the previous consent of the landholder has been obtained for the mortgage. This sort of consent is very rare in these parts.

There are no such agencies in this district.

Land mortgage banks may successfully be started and worked in these parts. Working capital may be found in the shape of share-capital, long-term deposits, and by the floating of debentures. These amounts so pooled may be utilized for advancing long-term loans to relieve the agriculturist.

A strict scrutiny of the title-deeds by professional men will be the only remedy to guard against all litigation from outsiders. Search-certificates should be insisted upon not for 12 years only as it now prevails, but for a sufficiently long interval. I would even prefer search-certificates for the period covered by the Registration Act itself.

The banks should be given power of sale after due proclamation, notice and sufficient safeguard of the debtor's interest. Market overt should be strictly adhered to. It may even be given the power to foreclose the mortgaged property in case of default. This will spare a good deal of costs of litigation and much time and delay in the process of realization of the dues.

The working capital of the land mortgage banks should be mainly derived from deposits, funds from central institutions and debenture bonds as already adverted to. The Government should guarantee both for principal and interest in the case of debenture bonds.

5. Indigenous banks derive their working capital from deposits made by private persons and loans taken from the Imperial and other banks. They lend moneys on personal security of the borrower alone or in conjunction with some other person. Sometimes, their security is a mortgage bond and some securities are continuing security bonds. They take a *tharavai* interest in advance for the period fixed as the period of repayment at the time of the disbursement of the loan. The interest is agreed to at a particular rate, which does not find a place in the instrument itself. A rate is referred to in the instrument which is not in the contemplation of the parties. Although the plea is not open in a court of law, still when the matter is sought to be amicably settled out of court, the Chetti adheres to the original rate and takes compound interest for the period of default.

The Chetti firms, known herein as indigenous bankers, allow a low rate of interest on the deposits lodged with them. Their rate varies from 4 to 6½ per cent per annum.

**Written evidence of M.R.Ey. J. KRISHNAMURTI RAO Garu,
B.A., B.L., Secretary, District Co-operative
Central Bank, Cuddapah.**

I.—Agricultural credit and credit facilities for small industries.

1. In the Cuddapah district the agriculturist obtains finance (a) for expenses during cultivation, (b) for capital and permanent improvements and (c) for other special needs, e.g., failure of monsoo, for land revenue, in the following ways:—

(1) In every important village there are rich people who are big landed proprietors with large incomes or professional money-lenders who advance moneys to agriculturists residing in that and surrounding smaller villages, according to the needs of those agriculturists. The agriculturists approach them for cultivation expenses and for payment of land revenue. For capital and permanent improvements, if they are unable to raise money locally they go to important towns in the district to richer people to mortgage, if necessary, their immovable properties.

(2) In every big village there are persons to make advances in kind repayable in kind with additions in kind. This works out nearly 50 per cent as interest. Seed-grains and sometimes food-grains are borrowed on this system. This system is ruinous to the ryot. Poorer classes of cultivators who are not landlords also go in for such loans. The grain is collected at the time of harvest by the lender.

The rates of interest for money varies from 9 per cent to 18 per cent. A few cases have come to my notice where higher rates are charged. The usual rates vary between 9 and 12 per cent. In respect of loans in kind, the rates work out between 25 per cent and 50 per cent. The latter is compounded. Unless the borrower is prudent enough to pay up the loan at the earliest opportunity in the next harvest, he is on the road to ruin. The rate is for the season and is not calculated from day to day. In the case of ordinary loans interest is paid on date of repayment or renewal.

It is not very usual to pledge standing crops. In the case of commercial crops such as turmeric, cotton and groundnut, the cultivator enters into an agreement with the sowcar to sell him either the crop that is raised by him or a definite quantity and takes money in advance. He has to pay interest on the money till the produce is sent to the sowcar and sold in the market and the account adjusted. In some agreements the rates at which the produce is delivered are fixed, in others, the market rate decides the value. In default of delivery penalties are incorporated in the agreements. Such advances are made by sowcars to persons of some credit and property.

It is usual for the lenders to go to the borrowers at the time of harvest and gather as much as they could. Except in the case of loans in kind and in the case of advances on commercial crops no time is fixed for repayment. These loans are secured by simple bonds or promissory notes of the individual. Suretyship loans are not resorted to.

The general credit of the agricultural classes has gone down in this district, partly due to the facilities afforded by the Insolvency Act to unscrupulous borrowers. What at one time was thought to be an undignified act has now come to be looked upon as a matter of course. The ready weapon to threaten a creditor who desires to take coercive measures is the Insolvency Act. Many bogus loans are introduced in the schedule of creditors by the insolvent and dividend got paid on them by the insolvent in collusion with his friends and relations. The creditors are helpless and they generally find that to seek to get bogus debts expunged is a matter of difficulty and will be only throwing good money after bad.

The part played in agricultural finance by Government is very limited. It advances money to agriculturists under the Agriculturists Loans Act and it is not available readily to the ryot and perhaps when it actually reaches him it does so in a diminished form. Excepting for capital and permanent improvements to a very limited extent the help of Government is not much.

The Imperial Bank of India advances loans on the pledge of jewels and produce. For standing commercial clientele it advances loans on joint promissory notes.

There are no joint stock banks in the Cuddapah district.

The Co-operative Central Bank and through it the primary societies finance agriculturists to a certain extent. The extent to which purposes (a) and (c) are served by these is very small and attempts are being made to widen the activities in these directions. What are known as short-term loans, crop loans, are not availed of to any appreciable extent by cultivators through these co-operative institutions. They have been long accustomed to raise long-term both for productive and non-productive purposes and for permanent improvements. As stated before, they are having recourse to local money-lenders for loans for short-term purposes. This to a certain extent has resulted in overdues as repayment of the loans to the societies are indefinitely made to await the pleasure of the borrower. The local money-lenders are on the spot and the cultivator is more beholden to him as he caters to his urgent needs, which is not the case with the creditor society and the bank which cannot be expected to be so vigilant in collection under the existing arrangements. A present pressing creditor is the one preferred to an absentee impersonal institution.

I have already touched upon the other classes of money-lenders and their ways of business.

Since the Government, the Imperial Bank, the joint stock banks and indigenous banks and bankers serve the needs of only a very small percentage of the agricultural population and these do not afford credit facilities for small industries, the remaining institutions such as co-operative banks and professional money-lenders are the only bodies that are at present financing such requirements. The professional money-lenders cannot, in the nature of things, be expected to be otherwise than to look to their own interests. They are always on the look out for making as much out of the borrowers as possible. If they lend money to agriculturists, they are patient enough to allow their lent capital to double or even treble itself. They do not trouble the borrower till the usual period of limitation and if the borrower has sufficient security, they are prepared to renew the principal with the interest added. The poor ignorant borrower being in no fear of immediate pressure or harassment is ready and willing to do so. In the long run it is the agriculturist that suffers.

The money-lender who finances small industries is generally also a trader in those goods. He compels the borrower to enter into an agreement with him for supply of the manufactured articles at stated prices. This generally leaves a very little margin for the small industrialist. The major portion of the profits goes into the pocket of the money-lender, besides interest, usually at a very high rate on the amount advanced. The borrowers being generally illiterate, there is much room for fraud by the money-lender.

The only other institutions which have not these drawbacks are the co-operative institutions. But, as matters at present stand, they have not been as much helpful both to the agriculturist and the small industrialist. There are defects on both sides. The borrowers have not acquired business habits and punctuality. They are generally not thrifty. When once they borrow, they are not particular about repayment as originally agreed upon. These co-operative institutions, being managed by the borrowers themselves, are not keen on managing their institutions in a businesslike manner. On the other hand, these institutions have to depend for their finances on the Central Banks. They in their turn depend on their deposits and the Provincial Bank. The existing rate of interest to societies is 8 per cent and to individual borrowers of societies 9½ per cent. The Central Banks borrow at 6 per cent from the Provincial Bank. The margin for Central Banks and societies combined is 3½ per cent and in case of deposits the margin may be raised by another ¼ per cent. One per cent of this goes to supervision fund. The Central Banks have of necessity to maintain an efficient indoor and outdoor staff and most of the societies have little margin to maintain any staff, even a peon. The individual borrower has to pay once a year, but the society has to pay the Central Bank once in six months. From the financial aspect the borrower from the society and the society which borrows from the Central Bank feel that the rate of interest works higher than the rate of interest of the sowcar. They are generally blind

to the other advantages of co-operation. The rates at which the ultimate borrower borrows should be lowered. Under existing circumstances this is not possible. Another drawback is that money is not available to the ultimate borrower within a short time of his applying for a loan. The usual formalities take at least a month even if the matter be urgent. The present system does not facilitate catering to the needs of the individual borrower, as the institutions which are expected to help them will not have funds ready for the purpose.

So, there must be a direct touch between the lender and the borrower, and the lender must also be constantly watchful. Branches or agencies of Central Banks, either co-operative or joint-stock, should be opened either at taluk headquarters or, if possible, in *firka* headquarters so that the lender may be as vigilant as the private sowcar. By such means money may also be made available at a cheaper rate and facilities for thrift may also be provided. The system will also attract local capital. Many agricultural societies have no local capital.

Co-ordination.—As far as I can see there is no co-ordination between various banking agencies including Imperial Bank and Government.

2. The principal food stuffs are brought to market centres by agriculturists and are sold to local wholesale merchants.

The commercial crops, such as groundnut and cotton, are purchased by middlemen from agriculturists through agents and are then sold to wholesale exporters like Volkart Brothers. Good profits are made by middlemen which otherwise would have gone to agriculturists. In this district Messrs. Ralli Brothers, Volkart Brothers, Luis Dreyfus & Co., Strass & Co., East Asiatic Co., and the Bombay Co., are the chief exporting firms having a net work of agencies for gathering in the commercial crops. There are very many ginning factories and decorticating machines owned by small local capitalists who have their own commission agents to get in the produce. The commercial agents have their sub-agents who also receive commission and deal directly with the producer. On account of so many middlemen between the exporter and the producer, the producer gains little. The produce is purchased under a system of forward contracts. On account of fluctuations in prices sometimes the middlemen have to incur heavy losses which ultimately falls on the producer, when the middlemen become insolvents.

If all the aforesaid middlemen are replaced by co-operative agencies for pooling, decorticating and dealing directly with the exporter, the agriculturists will be greatly benefited.

As for turmeric, the trade is in the hands of merchants in the provincial towns. The same system is adopted and most of the produce is sent inland to Northern India. In many cases the local sowcars have direct dealings with the producer by a system of forward contracts. The loss here to the producer is not so great as in the case of groundnut and cotton.

A wide organization is necessary for pooling and co-operative marketing. Even the credit movement has not taken deep root. There is no local incentive for this kind of business. A good deal of illiteracy prevails in the villages. Mere propaganda and education will not do. The people have to be guided at every stage and sufficient number of paid and well trained organizers are required to run these institutions before the people become accustomed to such business. Outside control and supervision is necessary and the matter cannot be left to the villagers themselves.

There are no credit facilities at present. Some sowcars may advance monies on the security of the produce, but the terms are not fair. The Imperial Bank may to a limited extent advance monies. The co-operative movement has not been successful in the line for the simple reason that the societies have not sufficiently advanced in business methods to run such institutions and finance the producer. Simple credit movement is not being managed well and in a businesslike manner and it cannot be expected that more complicated concerns could be managed by these institutions.

The known methods of remittance are bills including hundis, drafts and post office. In the matter of remittances of co-operative institutions, the Government treasuries have been of help. In particular seasons of the year when the trade is brisk hundis are resorted to. Sometimes they are discounted locally with merchants and sowcars. There are no regular private bankers in the line of issuing or discounting hundis. The practice

of raising credit on documents of title to goods such as railway receipts is not in vogue. The Imperial Bank is the only one institution in this district. It grants drafts and sometimes discounts hundis. There are a lot of impediments in co-operative central banks undertaking this business. The banking facilities for these institutions are very restricted. Some features are explained in answer to question No. 7.

3. The value of an acre of land varies greatly. It depends upon the following circumstances:—

(1) The fertility of the soil, (2) facility for irrigation, (3) nature of crops that are usually raised, (4) the area available for cultivation, (5) the density of agricultural population and the demand for cultivable land, (6) the distance from the land to the harvest market, and (7) continuity of good or bad seasons.

For wet crops, the price varies from Rs. 200 to Rs. 1,000 or more. For dry crops from Rs. 50 to Rs. 500. For garden crops from Rs. 300 to over Rs. 1,000 and in particular places to Rs. 2,000.

Government lands are generally allowed to be sold in Government auction for non-payment of revenue. In many cases only land that is not worth cultivating is allowed to be sold. If for some grave reasons good land is sold, it generally fetches good prices if there is proper advertisement. The sale is generally held near the land.

In case of sales under court decrees, the chances are that the land will not procure good prices; the prices may fall below 50 per cent. The court auctions are generally held in the court premises and if the land is in a distant place from the court house, bidders will be few and there will not be much competition. Only in exceptional circumstances court sales procure good prices. The best price is generally obtained by private negotiation, unless the seller is in difficulties and is compelled to dispose of the land at a slightly lower price. But at any rate, it will be better than the court sale.

4. There are no legal impediments to mortgage land and agricultural holdings which are ryotwari. Only mahenab zamindari and *inam* lands cannot be alienated beyond the lifetime of the alienor.

There are no agricultural or land mortgage banks in the district. Very recently a land mortgage bank has been floated in Madras which is advertised to possess an agency in this district also. Nothing is yet known of its activities.

I have already touched upon the necessity for such banks. A net work of agencies throughout the district, particularly in taluk headquarters, will place them within easy reach of the borrower. A competent outdoor staff is necessary to watch the borrower and see that the debt does not swell and enforce payment in easy instalments. Such banks can provide cash credit facilities for the borrowers' short-term purposes. This will educate the people in the habits of banking. Safeguards have to be provided against combination, in case the property is brought to sale and against depreciation due to depopulation and bad seasons.

The majority of the population are governed either by Hindu Law or Muhammadan Law. The rights to properties under both differ considerably and in the case of Muhammadans it is very complicated. Under Hindu Law though the manager of a joint Hindu family has full powers of alienation under certain circumstances, it is always open to the junior members to challenge them. Registry of the family property in his sole name does not raise any presumption that the property is his. So also in the case of Muhammadans. The solution under (a) is not an easy one. Before a property is taken as a mortgage from a constituent of the bank careful enquiries have to be instituted to ascertain the extent of the borrowers' title to the property, the purpose of the loan, etc., just as in the case of an ordinary money-lender. If a cut and dry method is necessary, provisions analogous to those contained in the Revenue Recovery Act should be incorporated. But it will be unjust to import such drastic provisions and register the property in the name of any particular individual without ascertaining the wishes of others interested in the property. Even the present record of rights in the Revenue Department is very unsatisfactory. We find a property registered in the name of individuals having no connection with each other. Such properties have to be sub-divided before a satisfactory record of rights could be maintained.

(b) When once a way is found for a satisfactory record of rights and a constituent of the bank in whose name the property is registered borrows, scope for further litigation should be completely closed. The process for foreclosure and sale by the mortgage bank should be speedy and simple, instead of the complicated procedure of civil courts. In case of foreclosure a summary procedure is necessary. In case of sale, powers of sale may be conferred on the bank as in the case of sales by deposit of title-deeds in the presidency towns. When once the property is mortgaged to the bank, a subsequent mortgage of the equity of redemption should not be recognized unless it is recognized and registered in the bank.

(c) These costs should be reduced to a minimum. The existing rates for search of encumbrances in the Registrar's office are very high. In case of disputes, provisions should be made for references on lines similar to those in the Co-operative Societies Act.

The working capital of the proposed mortgage bank should be derived largely from debenture bonds, if the loans are intended to be for long periods. In case of short-term loans, deposits may be utilized. As a last recourse funds from the central institutions may be availed of. Money can be raised at cheaper rates in cases coming under (a) and (c) and lent out at moderate rates leaving sufficient margin to cover working expenses and for making provision against losses.

If debenture bonds cannot be floated easily and in sufficient quantity in the beginning before the public gains confidence, the Government should either finance or purchase debenture bonds redeemable at intervals, or the Government should guarantee both principal and interest. In the latter case an insurance fund may be raised to provide against any loss to Government.

The borrowing rate may be between 5 to 6 per cent and the lending rate between $7\frac{1}{2}$ and $8\frac{1}{2}$ per cent, the lower rate to prevail in case of Government guarantee. A margin of $2\frac{1}{2}$ per cent may be sufficient to cover expenses.

5. It is difficult to estimate the indebtedness of agricultural classes accurately. In the case of co-operative credit unlimited liability societies an estimate of the indebtedness of the members of a society is made, but even here the members are not willing to disclose their whole indebtedness. They try to minimise their indebtedness. As the borrowing limit of each individual in the society is limited to a particular figure varying from Rs. 250 to Rs. 1,000 according to the circumstances of each society, the members are not inclined to disclose their whole indebtedness if it happens to exceed much that limit, lest a loan should be refused to him.

It is possible to estimate if hopes are held out to them that money will be provided to them on sufficient security to the whole extent of their needs both for long-term and short-term purposes and for productive and non-productive purposes. A survey has to be made in each area. The people are also afraid to disclose their true financial position lest their credit should be affected and induce their creditors to take steps to recover their dues, virtually in cases driving them to insolvency.

I have already touched on the rates of interest and how they are calculated. The small farmers are gradually replaced by rich farmers who also happen to be their creditors. Or, the farms pass into the hands of sowcars and professional money-lenders who let these lands to the debtors on leases for rent in kind or money.

The actual cultivator unless he is the owner of the property has no incentive to produce more, unless his tenure is sufficiently long and the rate is fixed. In case of *raram* or *koru* system, there is no such incentive.

6. In the Cuddapah district the subsidiary industries allied or supplemental to agriculture are dairy-farming, gur-making, to a very little extent, garden produce and hand-spinning. These are not conducted on co-operative scale. Each agriculturist house-holder does it for himself. There is no pooling of the produce for such small industrial purposes. Hand-spinning was formerly a common sight in all villages where cotton was grown. The women of the family were given full employment in spinning sufficient quantity of yarn for weaving into cloth for the whole household. The yarn was given to local village weavers either of the weaver caste or Panchamas for being woven into cloth. The agriculturists were not going in for mill

cloth or other finer stuffs. They, both males and females, wore home-spuns. Now, times are changed and spinning as an occupation has fallen into disuse. Refined notions have crept even in remote villages and the people are purchasing finer stuffs of cotton and silk cloths and spending large amounts which they could have otherwise saved.

Gandhi's propaganda for *khaddar* is more or less confined to educated classes and unless the villagers go back to their old methods, hand-spinning as a home industry in this district, where it was universal, may gradually die out.

6-A. Besides the above, there are centres in this district where hand-loom weaving and metal works are carried on. Both these industries are sought to be helped through the co-operative movement. The Industrial Department of Government recently had a survey made of these industries. No tangible results are shown. The weavers are as a class indigent. Their habits of life are such that they are always improvident. They are not thrifty. Besides, they find it difficult to compete with mill cloth. There are certain kinds of cloth which they can produce for local consumption and for export, if only they are thrifty and punctual in meeting their obligations to their creditors. Though some weaving centres are thriving, the weavers are still poor and indigent. The local sowcars who control and finance these weavers get the greatest advantage from these. Co-operative institutions may be of great advantage to these, but they have not proved a success because the weavers are not able to manage these institutions on sound business lines.

In the case of metal industries, attempts were made to stabilize brass-metal and bell-metal industries on co-operative lines. The bell-metal industry is in the hands of "Voddars" who are mostly police suspects. For want of external help, guidance and control, the co-operative society started to finance this industry has not thrived. Otherwise, the lot of these industrial workers would have been much better. Local sowcars have established themselves firmly in that centre and it has been a difficult matter to supplant them, on account of an efficient co-operative organization. The brass-metal industry is in the hands of Muhammadans. It was expected that it will considerably prosper with the help of a co-operative society specially started for these people. Unfortunately the society is being mismanaged by the panchayatdars. If all these industries are to thrive efficiently through the help of organizations such as a co-operative society, specially trained staff is necessary to constantly watch, guide and control these societies and prevent lapses of members or panchayatdars. Societies left to themselves will not thrive. Societies for weavers and other industrial workers should be formed in such a way that the members of these societies should work for the society receiving wages for their labour, the societies purchasing the necessary raw materials and distributing them among the workers. The societies should in turn concentrate in a central society the production of all these societies which should find a market for these commodities. The members of these societies should not be allowed to draw the profits which they get either in the shape of dividend or bonus, but should have them accumulated in the society itself, with some proper safeguards for pecuniary accommodation on the strength of such accumulated sums, in cases of dire necessity.

In this district there are no joint stock banks or other indigenous banks. Besides the Imperial Bank there is the Co-operative Central Bank. The Imperial Bank has given an overdraft of Rs. 20,000 to the Cuddapah Co-operative Central Bank for the purpose of short-term credit and as a cover for deposits. The conditions of overdraft are rigorous. The Imperial Bank allows the Co-operative Central Bank to transmit its excess amounts to the Madras Central Urban Bank and *vice versa* free of cost provided those amounts are utilized for purely co-operative purposes or for investment as short-term deposits in the Madras Central Urban Bank. This rigorous system has caused hardship in developing banking facilities by Co-operative Central Banks.

Co-operative Central Banks are permitted to have all ordinary banking business in the shape of long and short-term deposits and deposits at call such as current deposits. If a constituent of the bank has a current account and draws a cheque with a request that a cheque for a like amount may be granted to him on the Madras Central Urban Bank, its bankers

in Madras, the procedure was objected to by the Imperial Bank at Madras on the ground that monies remitted to Madras Central Urban Bank were for the purpose of investment and not to meet cheques of the constituents of the bank. When a constituent of the bank desired a cheque on the local branch of the Imperial Bank, where the surplus monies of the Central Bank are invested in current deposits, in lieu of his own cheque on the Central Bank, this was also objected to on the ground that the objection of the Imperial Bank at Madras covers such cases also, though I personally do not think so. It may be that in some cases the constituents misuse the privilege being still within their legal rights. Cheques are negotiable instruments and may be endorsed in favour of any person to whom the constituent owes money, whether he be a resident of Cuddapah or outside. If the Co-operative Central Bank utilize its own monies in the local branch to pay depositors, I do not see in what way the Imperial Bank is of any use in helping and developing banking finance in this district, through other banking institutions. It expects that the Co-operative Central Bank should watch and ascertain the purposes for which the cheques are issued by it and prevent such purposes which are likely to cause loss to the Imperial Bank in the shape of commission, etc. Restriction as to transmission and utilization of monies now placed on Co-operative Central Banks should be removed. Before the advent of the Imperial Bank the Government treasuries were the means of transmission by means of R.T.R. There were no restrictions then.

The Imperial Bank does not pay any interest on current deposits, even if large sums are in such deposits. Hence to avoid loss to Central Bank surplus monies have to be transmitted to the Madras Central Urban Bank. The Imperial Bank may well pay interest on current deposits of Central Banks.

The Committee on Co-operation have restricted long-term credit by co-operative societies to five years and short-term credit for one year. In the case of long-term credit, the period of five years is generally felt to be too short. As a matter of business safety, it was thought advisable that longer period is not justifiable as deposits in the co-operative banks are within that period. Only land mortgage banks can solve the problem of long-term credit.

I have already touched upon the practical difficulties of finance in the case of short-term credit through co-operative institutions. The present system is rigid, dilatory and cumbersome. While one responsible agent of a branch of the Imperial Bank can grant short-term loans in a very short term, the co-operative bodies through which an application for a short-term loan has to pass are many and by the time the borrower gets the loan sanctioned, his need would have been otherwise satisfied. Special agencies should be created by co-operative institutions by which short-term credit can be made available to the agriculturist within a few days after he applies for it. The present method of pooling of requirements for short-term purposes with the help of co-operative union has not been so far successful either in stimulating short-term loans or supplanting the influence of local money-lenders.

There are no joint stock banks in this district.

The profits of co-operative societies are exempt from income-tax. Local bodies levy profession-tax. All co-operative institutions should be exempt from any tax in any form whatever.

If the depositors in co-operative institutions are also exempted from income-tax to the extent of their incomes from deposits, it is possible that the deposits in these institutions may be attracted to a larger extent.

II.—Indigenous Banking.

There are no such institutions in this district as are described in the note at the head of the questionnaire of this section.

There should be more indigenous banks or their branches or joint stock banks or their branches in each district. They should work on the lines of the Imperial Bank of India with a local advisory committee. A central branch should have a net-work of agencies in each taluk headquarters. Facilities for remittances should be created also through the Sub-Government treasuries. There should be better co-ordination between the Provincial

Co-operative Bank and the District Central Banks and greater facilities for interchange of money between these should be created, than what they are now, through the Imperial Bank of India.

III.—Investment habit and attraction of capital.

The public in the interior of districts are losing their confidence in private investments. But for want of facilities locally money is not flowing into banking institutions in the mufassal. This can be gauged by the fact that after the creation of co-operative central banks and the opening of branches of the Imperial Bank more local capital is being attracted. More resources may be tapped through a network of agencies and providing facilities for small investments in savings banks and home-safe deposits.

When once people realize that their small savings are safe with banking institutions and they can expect a return, even small, for their investments, they will be tempted to make investments instead of locking the same in gold and silver. They will feel the necessity for having ready cash in the place of the existing habit of investing in gold and silver. I may go to the length of saying that absence of facilities for investment has created a habit of locking savings in unproductive gold and silver.

3. Greater facilities should be provided for purchase and sale of Government securities. The rate of commission now usually charged by the Imperial Bank and other banking institutions should be reduced and facilities for purchase through all treasuries and sub-treasuries should be created. It is also desirable that Government securities for smaller amounts than Rs. 100 should be issued. The savings from the sale of produce is either invested in the purchase of gold and silver, lending out to needy neighbours, or accumulated in their own safes. Some people invest their monies with money-lenders and with traders, who require capital for their trade purposes.

The better class of farmers lend to fellow agriculturists either for money return or return in kind. The latter terms are very unconscionable. The lenders gradually become professional money-lenders commanding a large clientele in their area.

4. By the spread of co-operative central banks and agencies of the Imperial Bank of India, cheque habit has increased and the abolition of stamp duty has stimulated the habit. Payments to Government servants and employees by cheques is very desirable, but the practice can be confined only to centres where banking facilities exist. All treasuries and sub-treasuries where no banks exist should cash cheques of the Imperial Bank of India, in which case all payments may be made by means of cheques not only for Rs. 100, but for all amounts. Cheques drawn by co-operative central banks on the Imperial Bank of India in any district should also be cashed by the sub-treasuries in the district. This will facilitate remittances into the interior.

5. The banking and investment habit is of a very slow growth. The main causes are: the people not being acquainted with banking institutions and the facilities afforded by them for investments had not taken to it. The facilities for such investments have been absent in the interior. Private bankers not being stable and crashes of some private bankers of repute such as Arbuthnots have shaken the confidence of the public in any but recognized banks.

The people know the existence of provisions for Government loans, but they freely do not resort to it on account of various drawbacks that now exist in the system. So many formalities have to be gone through and so many intermediaries have to be satisfied before a loan reaches the poor illiterate agriculturist in its reduced form, that they rather go without it than undergo all the trouble and sometimes humiliation and loss. Mere propaganda alone does not improve matters.

The opening of the branches of the Imperial Bank has facilitated internal trade, attracted capital and provided other safer facilities for borrowers to some extent. But, as I have already pointed out, there is very wide scope for its usefulness and utility, if only the Imperial Bank has the mind to do it even at some sacrifice. Better co-operation and less of profit hunting is required.

Written evidence of M.R.Ry. B. T. SHESHADEI ACHARIYAR
Avargal, President, Taluk Board, Tiruppattur.

I.—Agricultural credit and credit facilities for small industries.

Owing to the continuous failure of monsoon and the consequent absence of floods in the Palar and its tributaries the economic condition of the ryots in the district of North Arcot is far from satisfactory. It is no exaggeration to state that 95 per cent of the ryots are indebted. At present, most of the agriculturists in the district borrow money for cultivation, for capital and permanent improvements and for other special needs connected with the land, from the professional money-lenders, merchants, co-operative societies and other dealers, on personal and landed security.

Some have secured takavi loans from Government. The Imperial Bank of India and joint stock banks do not advance money to the agriculturists. On the other hand, they encourage merchants and other dealers. The rate of interest charged in this district in respect of advances made to the agriculturists varies from 9 per cent to 24 per cent per annum. The co-operative societies do not generally lend more than Rs. 500 to an individual. The term of such loan is now reduced to one year. Consequently, co-operative societies in rural areas have not done much to relieve the distress of the agriculturists. Private bankers are practically usurers. Therefore, it is the duty of the Government to relieve the indebtedness of the ryot and encourage agriculture which is the main source of revenue and the backbone of the country's industry.

The total amount of capital required to relieve the present indebtedness of the agriculturists in the district is, according to our opinion, not less than one crore of rupees, including the capital required for cultivation, permanent improvement, land revenue and other special needs during failure of monsoon.

The remedy, we suggest, is that a land mortgage bank or several land mortgage banks with an aggregate capital of a crore of rupees, lending money at not more than 5 per cent interest payable in 30 annual instalments must be established in one or more centres in the district. These banks must be empowered to lend up to Rs. 20,000 to each individual agriculturist on the security of lands and other immovable properties. The loans shall be granted to each individual at two-thirds of the estimated cost of the lands and other immovable properties mortgaged.

If the indebtedness of the agriculturists is removed by the establishment of the land mortgage banks as stated above, we do not think co-operative efforts for marketing the agricultural produce are necessary. The agriculturist will then be able to wait till he gets the highest price for his commodities.

We are of opinion that industries like tanneries, sugar and sugar-candy refineries, hand-loom weaving, mat-making, glass-bangle making, poultry-breeding, dairy-farming, furniture-making, manufacturing of bone-meal and other artificial manures, coir-making, rice-milling, gur-making, cotton-ginning, garden produce and hand-spinning must be encouraged as supplemental to agriculture and be included in the list of industries to be aided by Government according to the State Aid to Industries Act. These will give employment to the farmer during seasons when he cannot make full use of his time on his farm and thus enable him to supplement his income and raise his standard of living.

II.—Indigenous banking.

There are a few indigenous bankers in villages scattered here and there. These grant loans to the agriculturists on high rates of interest. The dealings of this class of bankers with the agriculturists are not conducted on sound lines or on definite principles. These bankers are not quite popular with the agriculturists as the treatment meted out to the latter by the former is more or less equivalent to that meted out to a slave by his master.

The opening of new branches in recent years by the Imperial Bank of India has not helped and will in no way help the poor agriculturists unless the bank comes forward to give long-term loans on the security of lands on reasonable interest.

**Written evidence of M.R. Ry. SAMUEL MATHURANAYAGAM
PILLAI Avargal, Landlord, Murugankurichi, Palamecottah.**

I.—Agricultural credit and credit facilities for small industries.

1. (a) For expenses during cultivation small agriculturists borrow from local money-lenders with small capital and big (property owning) agriculturists and from joint stock banks and indigenous bankers.

(b) For capital and permanent improvements agriculturists who have very little property mortgage it to the local money-lenders and borrow. Agriculturists who own big property could raise money for this purpose even on pro-notes. Everything depends upon the extent of property the borrower owns and his solvency. Such big property owning agriculturists borrow from big money-lenders, indigenous banks and joint stock banks.

(c) Big property owning agriculturists are not affected by failure of one or two monsoons, nor do they raise loan for land revenue; for they have generally other kinds of properties than agricultural lands, and land revenue is paid from income from them. But failure of monsoon certainly affects small farmers, and when such contingency arises they borrow by pledging their wives' jewels to the local money-lender both for their maintenance and for paying land revenue.

The rate of interest charged for little farmers by local money-lenders do not generally exceed 24 per cent per annum. Loans are taken invariably for six months or one year. Little farmers have generally nothing to give as security except their prospective produce a lien on which to the money-lender is usually implied and at each harvest season the money-lender goes to the threshing floor and collects interest and the whole or a part of the capital in kind assessing the product collected at its market value. To portions of interest not collected as stipulated, compound interest is charged at 24 per cent and so on.

Big property-owning farmers and agriculturists only have access to the Imperial Bank of India, the joint stock banks, the indigenous banks and bankers and big professional money-lenders. (I make a distinction in these papers between big professional money-lenders and small professional ones, of course, in point of capital which they have invested in money-lending. Small farmers or agriculturists generally go to the petty local money-lender on terms and conditions described in the previous paragraph and, sometimes, they nowadays go to the rural co-operative bank too, becoming its members. As to merchants and dealers, they sometimes lend to mediocre and big agriculturists on security of their produce. They assess a value on the produce pledged and lend two-thirds of the value to the agriculturist. The sale of the produce secured is negotiated and effected through them and from the proceeds of the sale the merchant or dealer takes the capital he lent, its interest (invariably 24 per cent per annum) and some commission for the consummation of sale through him. So far as I know, there are no companies trading in fertilizers, etc., which give credit direct to agriculturists in this district. The Government have lent money here and there to agriculturists under the Agriculturists Loans Act; but this is not done on a large scale.

It is very difficult for a private individual like myself to form an estimate of the total amount of capital required for the various purposes stated above for our district, and much more so for the province. If the accounts for at least five years of all banks and all money-lenders big and small in the district could be procured an estimate of the above nature could be drawn.

Defects and suggestion of remedies.—Big banking concerns like the Imperial Bank of India, joint stock banks, or big indigenous banks are not accessible to small farmers. The reason is, it would not pay them to be lending small amounts to petty farmers. Genuine rural co-operative societies supported financially by Government and big banking concerns seem to be one remedy. Enacting a law prohibiting lending money on usuary may be another remedy.

There is little of co-ordination among the various credit agencies and it is not possible to have any in future. So far as banking concerns of various kinds, except co-operative banks, are concerned, co-ordination among them would mean loss of business and loss of profit to them. But among co-operative banks, there is of course co-ordination; and the Government to a certain extent co-ordinates with the Imperial Bank of India. If the Government could co-ordinate with, and finance by giving credit to, the co-operative banks, some improvement could be achieved. For, co-operative banking, as a system, in my humble opinion, could not turn out to be a complete success without external support for at least some years to come. Such support could not be expected from joint stock or indigenous banks who naturally look upon co-operative banks as their rival. The Government and the Government alone should lend support.

2. Principal crops like paddy, ragi and pulses are sold by agriculturists to private individuals in small quantities, and in large quantities to wholesale dealers. Commission agencies are run in trade centres like Tuticorin and Pettai, etc., in our district where, for a certain commission, any quantity of product could be sold.

Even co-operative credit banks are in an infant stage. It is doubtful if co-operative systems in non-credit fields such as distribution of stores, construction of buildings, marketing of produce could be an entire success in the long run.

I have described under head (1) in connection with merchants and dealers the facilities for marketing produce. Prices will be constantly fluctuating and dissensions may arise among members of such pools (co-operative) as to whose product should be sold first and so on. Some may be adversely affected and heart burnings will arise.

The different kinds of banks and bankers give a temporary loan on security of produce, they discount bills and issue hundis.

3. *Nanjas or wet lands*—(a) *Irrigated by channel from Tambraparni source and tanks under them*.—(1) First rate Rs. 4,550 per acre, (2) second rate Rs. 2,600 to Rs. 3,250 per acre and (3) lands far away from the sluice head of the channel or tank fetch prices little lower than the second rate.

(b) *Irrigated by rain-fed tanks*.—Ranges from Rs. 650 per acre to Rs. 2,600 per acre according to the storage capacity of the tanks, the area of its catchment and such other things.

Punjas or dry lands—(a) *Red soil*.—Price varies from Rs. 2 to Rs. 200 per acre according to the quality of the soil.

(b) *Black soil*.—First rate price varies from Rs. 500 to Rs. 1,000 per acre. Second rate varies from Rs. 300 to Rs. 500 per acre.

If the seller of a land is well to do he gets the maximum price because he is not in want and not in a hurry to sell. On the other hand, the owner of a land who is immersed in debt and who is squeezed by debtors gets a low price for his land because he is in a hurry owing to pressure by debtors. In Government auction for non-payment of revenue or in sales by court decree lands usually fetch a lower price than by private negotiation.

4. So far as I know, there are no legal impediments to mortgage of lands or agricultural holdings in my district except in the case of ancestral properties. Very often, the lender comes to know of the existence of minors after the money is lent and, long after the property comes to his hand instead of the money borrowed, the minor attains majority and claims the property and sometimes successfully too. There is no land mortgage bank or agricultural bank or any other bank for the provision of long-term credit in my district or in districts adjoining mine.

My humble opinion is that no land mortgage bank could be started in a locality or a district where the people are not for it. I am an individual share-holder of the District Co-operative Banking Union, Tinnevely, and attend its general body meetings regularly. I found, at a meeting, when society share-holders cried for extending the time of credit and when the Deputy Registrar of Co-operative Societies who was also present at the meeting suggested the starting of a land mortgage bank society members declared against it in unequivocal terms.

Regarding suggestions under the first, (b) and (c) under this head 4, I think there should be special legislation exempting co-operative land mortgage banks from having recourse to ordinary process of law and giving concession in regard to court-fee, costs of reference to the record of rights and so on.

Working capital of proposed mortgage banks should be derived from central institutions and debenture bonds; long-term deposits from the public are not likely to be large, central institutions should be supported by Government in the initial stages and debenture bonds should carry Government guarantee both for principal and interest.

There is not likely to be much loss to Government because the land mortgage bank's money is always lent on mortgage of land. If the money does not come the land will come to the bank's possession and could be re-sold and money realized.

Repayment by agriculturists of moneys lent to them by land mortgage banks should be in easy instalments spread over a period of 10 to 20 years. Interest and a certain portion of the capital should be payable immediately after every harvest. The rate of interest charged to borrowers should not exceed 9 per cent per annum for small amounts and $7\frac{1}{2}$ per cent for large amounts. The rate of interest payable by the bank on moneys raised by it should be so fixed as to leave a margin to the bank sufficient to cover expenses.

5. It is very difficult for a private individual like my humble self to reach an accurate estimate of the existing indebtedness of the agricultural classes in my district or province. Reaching such an estimate will be difficult even for the Government. Figures could be got from joint-stock banks, indigenous bankers and big money-lenders who are liable to income-tax; as to mortgages, figures could be got from registration offices. But there are petty money-lenders, too numerous to mention, who are not liable to income-tax. Most of them do not keep regular accounts. Reaching an estimate of their investments in money-lending is not possible.

I do not know of any such estimate for a village or a district in my province or for the whole province.

A very rough estimate could be prepared by Government by collecting figures from the various heads mentioned by me in the foregoing paragraph.

(c) Ploughs and agricultural implements are very seldom pledged for borrowing money in our parts. In fact, farmers in our parts have no agricultural implements worth mentioning; even these they require for constant use.

Loans are raised by agriculturists for all the purposes from (a) to (i) mentioned in the schedule in the questionnaire except for (g). Agriculturists in our parts use only stereotyped implements and seldom improve them.

These debts will be largely due to professional money-lenders and local petty money-lenders. Only big landlord agriculturists go to banks and indigenous banks. Nowadays small farmers sometimes go to co-operative societies and sometimes, they revert to the local money-lender unable to pay back punctually to the co-operative society.

Petty local money-lenders charge interest at the rate of 24 and even 36 per cent per annum. They generally charge compound interest adding interest to capital once in six months. When the security on which money is lent is jewel or other movable property, it is sold and the proceeds are credited to the borrower's account; when amount is lent on pro-note the lender institutes legal proceedings in a court of law to recover money.

Big landowners sometimes lose their property and become poor on account of the enforcement of old debts by creditors; but, in our parts, old debts are very rare among petty farmers. Such farmers have hand-to-mouth existence and seldom have extra income. Local money-lenders do not allow debts to them to grow old. They are summarily settled. If debts to them grow old they are simply written off.

So far as I could know, the indebtedness of the farmer is not the only cause which takes away from him the incentive to produce more and in an efficient and better manner. So many other causes contribute to such a state of affair.

Rice and pulses milling exists at Tuticorin, Palamcottah, etc.; dairy farming also exists; but these are carried on by industrialists and not by agriculturists themselves. Garden produce is, of course, I take it, a part of agriculture itself. One or two cotton ginneries established and worked by big landlords in the black cotton soil area of north Tinnevely are in existence. Sugar refineries and hand-spinning are not done by agriculturists. The former is too big an enterprise for the farmer.

6-A. Rice milling in south and west Tinnevely and cotton ginning in north Tinnevely by big farmers could be encouraged. They could be run on co-operative basis. But, as regards petty farmers, there is little of off-season to them. Petty farmers may be made to utilize their off-season in cottage industries such as basket-making, mat-weaving, coir-making, etc., for which raw products are available at hand. Spinning could be encouraged in north Tinnevely. But, if it is to be done in south Tinnevely raw product will have to come from north Tinnevely.

In our district, especially in south Tinnevely, agriculture, by itself alone, cannot support the farmer and his family. He must supplement its income by some other means. In towns many little farmers keep a cart and a pair of bulls; except at the time of ploughing and harvesting he uses them for carrying road materials, or building materials, for hire and thus earns. Those who cannot afford to keep cart and bulls go as coolies in building works or raising mud walls, thatching roofs, hewing fuel, etc. In village parts surrounding our towns the farmers in their spare time break stones for road materials, dig and supply chunam rocks for lime kilns and so on. There is scope around our town for using machinery for breaking granite stones for roads from rocks.

Cotton gins and rice mills could be done on co-operative basis. If machinery is used for grinding stones for supply as road materials, that also could be done on co-operative basis. Ordinary rural co-operative credit societies could finance petty industries like mat weaving, basket making, etc.

Handloom and weaving are done by Kikilavars at Tinnevely, Viravannallur and other places of our district, by Shourastras specially at Palamcottah and by Muhammadans at Melapalayam. They have almost all of them a precarious existence. Fishery is done in many coastal villages of Tinnevely in stereotyped, antiquated fashion. Articles of household utensils in metals are done by artisans.

For handloom and weaving co-operative systems could be tried. As for fisheries, I believe there are already some fishermen co-operative societies in our district. They could be consolidated and enlarged.

7. In our district the Imperial Bank of India gives overdrafts to the District Co-operative Banking Union, Tinnevely, and cash credits to few indigenous bankers. But Indian-managed joint stock banks do not as a rule have transactions of the abovesaid nature with the Imperial Bank of India.

For short-term capital co-operative societies have no difficulties because the District Co-operative Bank which finances them receives overdrafts from the Imperial Bank and from the Provincial Co-operative Bank, Madras, and deposits both from individual share-holders of the bank and non-share-holder members of the public. But, for long-term capital there is difficulty. No outsider will invest money in a bank for a long term unless he is sure of the continued stability of the bank.

Extra capital required for financing co-operative banks will depend on the rate at which these banks grow, on sound lines, of course.

There is not any appreciable competition between joint stock banks and co-operative banks; but surely the former are handicapped by the advent of the latter.

Any amount of financial concessions should be welcome for stimulating the growth of the co-operative movement. Special exemption from income-tax to genuine co-operative societies is welcome. But inclusion of debentures of provincial co-operative banks in the list of trustee securities in rural and district co-operative banks does not count for much. For the latter are but parts of the machinery for which the power station is, as it were, the former. If such debentures are received as security by joint stock banks and indigenous bankers not connected with co-operative banks, that, indeed, will be a real gain.

II.—Indigenous Banking.

1. In our district banks receive deposits from members of the public, lend money mostly on pro-notes and security of jewels, but sometimes on mortgages also, transact hundi business and discount cheques on big banks such as the Imperial Bank, the National Bank of India, etc.

2. Indigenous banks and bankers in our district lend mostly to traders and industrialists; a little to big landlord agriculturists. But they are not accessible to petty agriculturists and small farmers because those small farmers are worth little and their want by way of loan is also little. It does not pay and is not thought worth while by the indigenous banker to transact business with them.

3. Indigenous bankers were mostly Nattukottai Chettis in our district in former days; but now other caste people also carry on banking business.

(a) & (b) About a quarter of a century ago the amount of capital invested by the indigenous bankers and the volume of their business were very large. In fact, they were the only bankers catering to the needs of the district, except perhaps Tuticorin.

(c) Chetti bankers' business extended over a large area. Some had branches even in far off places like Rangoon and Malay States. They had agents, sub-agents, accountants and court clerks for the various branches. Their expenses were not much when compared with their profits.

(d) All Nattukottai indigenous bankers are inter-related. They have credits each with the other with very few exceptions. The Imperial Bank of India and other joint-stock banks give credit to indigenous bankers assessing the value of their business, their stability, etc. But co-operative banks do not as a rule lend to indigenous bankers.

4. Hundis are drawn payable at sight or at some remote date. In our district they are used much among traders only and not among private individuals. For deposits, they do not give loose sheet receipts but, invariably, pass books only.

5. They send their clerks and servants to go about, make enquiries and verify the statements of intending borrowers regarding the extent of their property and their liabilities, if any. Having satisfied themselves, they pitch upon the amount which could be lent. Periodical enquiries are made regarding the stability of the customer; when unsatisfactory reports come, they at once take steps to collect the money. They generally lend on pro-notes or joint pro-notes. They avoid getting their monies invested in landed property in the course of their business, as, if such a contingency arises, their business will come to a standstill. These Chetti bankers have cash credits among themselves and with the general trading public. All cash credits are short-termed. They have a schedule of rates of interest for the twelve months of the year and there may be little fluctuations now and then according as money is dearer or cheaper. They very carefully prepare lists each year fixing the maximum amount up to which the various trader clients could be given credits. They are always on the alert, and constantly enquiring about the stability of trader clients.

Indigenous bankers have their own capital, besides which they receive deposits both fixed and current from the general public; cash credit system also is widely prevalent among them. With these funds they meet their demands. They allow from 6 per cent to 9 per cent per annum for fixed deposits and $4\frac{1}{2}$ to 6 per cent for the first half and 3 to $4\frac{1}{2}$ per cent for the second half of the calendar year for current deposits.

6. As I mentioned somewhere above, the petty farmer or agriculturist has very little access to big indigenous bankers. They have dealings mostly with local petty money-lenders. The rates of interest charged by local money-lenders are given by me above under I (5). Of course, big agriculturists sometimes do go to big indigenous bankers. The rates of interest charged to them is usually 12 to 18 per cent per annum according to the extent of the amount.

Genuine co-operative societies and banks seem to be the only solution for bringing rates of interest down.

The reduction of rates will confer great benefit on the agricultural community and increase its resources, etc., as laid down in this paragraph of the questionnaire provided, side by side with it, the other causes which contribute to the present deplorable economic condition of the agriculturist and which I have enumerated in the very last paragraph of these answers are also removed.

7. There may be prejudice in our locality against indigenous bankers but transactions with them could not always be avoided.

The law of insolvency is their inveterate foe and, of course, that law should be modified in their favour.

The dealings of this class of bankers, especially Chetti bankers, with their clientele are almost on sound lines. There are very few failures; even such failures are not due directly to their faulty dealing with their clientele but to losses incurred in embarking on big industrial enterprises or to large portions of their capital getting in the course of business invested in big landed property which could not be purchased by small capitalists. This latter contingency could not always be avoided. The first defect is easily removable and the second is sometimes unavoidable.

8. If they could lower their rates of interest and become accessible to clients in need of small amounts also, this class of bankers would be more serviceable to the community.

Except among Chetti bankers there is not much of co-ordination among indigenous bankers.

I do not think the indigenous banking system in India could be consolidated.

This question does not arise in view of my answer to the previous question.

The attitude of the indigenous banking community towards the introduction of any measure for regulating their operation, etc., would, I am afraid, be one of hostility or indifference.

9. The net return to the indigenous banks and bankers on their capital after making allowance for all expenses enumerated in this question will be about 9 per cent per annum.

10. So far as I could know, indigenous banks and bankers meet all demands for accommodation. It is but an elementary canon of banking to refuse a loan on account of the unacceptability of the nature of the security offered and they are obliged to do so.

11. Banks of the nature described under this head may be established in one or two districts first as an experiment.

The local knowledge and experience of indigenous bankers could be procured, and their competition avoided by making them members and directors of such banks.

12. So far as Chetti bankers are concerned, they have branches all over the province and even outside. Their money is never idle. But among non-Chetti bankers money may, to a certain extent, be idle during slack season.

I do not think large amount of money flows to the provincial capital.

Without co-ordination among indigenous bankers impounding funds for remunerative employment in the district is not possible. Such co-ordination is highly doubtful.

III.—Investment habit and attraction of capital.

1. The banking resources in our district are the share capitals of joint stock and co-operative banks, working capitals of indigenous bankers and the various kinds of deposits which they receive from the public and overdrafts and cash credits from banks outside the district.

The Post Office Savings Bank, savings bank accounts in the Imperial Bank of India, in the District Co-operative Bank and in joint stock banks, and provident fund institutions in local boards and municipalities and joint stock banks provided for their respective staffs are some of the institutions in existence for encouraging savings and investment habits. There are very few private provident fund institutions in the district; but there are numerous chit transactions conducted by private individuals both in towns and villages throughout the district, which also may be said to encourage savings habit among people.

Savings banks described above are not fully used by people as the masses are illiterate and do not even know of their existence. Chit transactions are very common among illiterates, their small savings being invested in them for being funded into a decent amount. But most of these chit transactions fail in the middle owing to mismanagement or fraud and the subscribers lose. Certainly, there should be an enactment controlling these transactions or companies.

With small farmers or agriculturists investment in silver and gold takes the shape of jewels and is mainly a provision for the rainy day. Very little is invested by these classes that way. In lean years they may have to pledge the same for borrowing; if lean years come in succession they may have to sell them and liquidate debts. Rich people, of course, make jewels to be used as ornaments. With them, it is a sort of investment, unyielding though it be.

2. Postal Cash Certificates are not popular in my district. Illiteracy among the masses stands in the way of everything. A majority of people do not know that such a thing as Postal Cash Certificates exists, and, if they know, they are ignorant of the ways of getting them. Postal Cash Certificates may be advertised more profusely in vernacular at railway stations, choultries, markets and village *charadis*. Village headmen and *karnams* may be asked to advertise them, to encourage their purchase and mediate and guide illiterate villagers in the matter of purchasing cash certificate, etc.

I just referred to "The Post Office Manual" and current edition of "Post and Telegraph Guide." Rate of interest on five years' Postal Cash Certificates seems to work out at 5 per cent per annum, simple interest, which, I think, is not too low, and requires no revision at present. Interest for fixed deposits given by the Imperial Bank of India, joint stock banks and co-operative banks of this district do not exceed 4½ per cent at present.

To my humble mind, no facilities lack to the public in connexion with savings bank; only illiteracy and ignorance stand in the way.

Only educated middle classes resort to such forms of investment.

The rate of interest for Post Office Savings Bank deposits which, I believe, is now 3 per cent should be raised so as to attract rich and poor classes alike. Advertising in the manner described by me under Postal Cash Certificates and removal of illiteracy may attract poorer classes.

In our district, there does not appear to be any competition between Government and banking institutions and bankers in regard to deposits owing to the attractive rates of Postal Cash Certificates and treasury bills. Even if there is such competition, the investor will stand to gain though bankers will be handicapped. Provided other conditions such as rates of interest, etc., are the same, investment in Government securities will be preferable to investment in banks.

3. Purchases and sales of Government securities are now effected in Government treasuries, the Imperial Bank of India and in post offices. To facilitate the purchase of Government securities by small agriculturists and small investors of the country the village headman, *karnam* and the

village teacher could be appointed as vendors, just as there are vendors for sale of judicial and non-judicial stamps, and a small commission could be allowed them for working with enthusiasm.

Petty farmers and agriculturists and labouring classes have hardly anything to lay by; they are almost always debtors. Whatever they get by sale of produce is just enough to maintain themselves and to clear old debts. As to rich agriculturists, their spare cash in country parts are used in money-lending and in subscribing to chit funds which when drawn in their favour is used for purchasing lands adjacent to theirs or for extraordinary domestic expenses such as marriages, etc.

Farmer lending to farmer is widely prevalent in our district. They lend on prospective produce, pledge of jewels, joint pro-notes, etc. Rates of interest will be from 12 to 24 per cent and, sometimes, but rarely, even 36 per cent per annum. Banks and investments in banks are unknown in country parts. Rural co-operative societies are coming into existence here and there nowadays.

4. Cheque habit is prevalent among educated classes and traders only in our district. Common people do not as a rule use cheques.

It is as yet too early to gauge the effect of the abolition of stamp duty on cheques. But it is sure to promote cheque habit.

Payment of Government servants and bank employees above Rs. 100 by cheques is not likely to be popular except perhaps with very highly paid officers.

Vernacular scripts will no doubt facilitate the use of cheques.

5. As far as I know, the opening of new branches in recent years by the Imperial Bank of India, has handicapped local joint stock banks and indigenous bankers. Rate of interest offered by them to depositors has been lowered. Borrowers from them also are benefited thereby in the matter of interest.

I support the view that the banking and investment habit in India is of very slow growth. The majority of Indians are poor and have hardly any money to invest. If they have small amounts they prefer to lend them to private individuals. That way, they think, they can earn more interest. Rich people have a distrust for banking concerns and prefer to have their moneys invested in lands and buildings, although interest to their capital earned that way is lower. As to petty farmers and agriculturists and labouring classes, their illiteracy and drink habit are the main causes. They care more for their drink than for their economic condition. There is no salvation for these classes unless these two evils are eradicated. A majority of them do not know what a bank is. If the two evils above mentioned are removed, their economic condition and consequently their standard of living also will automatically rise.

Written evidence of LILA RAM NARAINDas, Esq., Madura.

II.—Indigenous Banking.

1. The bankers in this district carry on the following transactions:—

(a) They advance money on the personal credit of the party on the execution of a hundi or a pro-note or in current account.

(b) They advance money on personal security, i.e., taking a note or a hundi signed by two persons instead of one, also on hypothecation, etc.

(c) They advance money on loans on security of goods of every kind.

(d) They give demand drafts payable at various places in India on receiving a small commission.

(e) They give telegraphic transfers also on payment of commission.

(f) They take deposits at a rate of interest varying from 3 to 6 per cent.

(g) They discount the bills or hundis mentioned in paragraphs (a) and (b) with the Imperial Bank of India or any other bank wherever they find it profitable to them.

(h) They purchase demand drafts from parties who send their merchandise to various parts of India and discount the same with the Imperial Bank of India or send them to their local agents for collection, reserving for themselves a small portion of their commission as their profit, thereby not only encouraging but also helping with finance all kinds of business.

2. The indigenous bankers help a great deal in financing trade, agriculture and industries in the province, as will be seen from the foregoing paragraph, provided the business is beneficial to their interests also.

3. The indigenous banks in this district are well organized and very well managed. The amount of their capital is extensive, amounting to lakhs of rupees and the volume of their business depends upon the various changes in the money market and also upon the facilities given to them by the Imperial Bank and other banks, which as it now appears begin to compete with them rather than give them more facilities as they ought to do in the interest of the trade and commerce of the country. Their expenses are limited and they do not have a big staff to manage their business, so much so that the work for which bankers have half a dozen of staff will require more than a dozen of persons at the Imperial Bank or any other concern. The beauty of the management is that those who are appointed at the head of affairs are not paid usual allowance per month but are allowed a certain share in the net income and hence they are more interested in the affairs of the firm. The relations between the bankers and the banks, specially the Imperial Bank, have been far from satisfactory. The principal source of money at present is the Imperial Bank of India, which does not give greater facilities to them. The management of the bank is mostly in the hands of non-Indians, who do not know the ability and good management of the shroffs (indigenous bankers) and thus naturally do not give the facilities due to them for the purpose of being helpful to Indian trade. On the contrary, every effort is made by the management of the Imperial Bank of India to compete with the indigenous bankers, who in fact cannot compete with a big bank, which gets vast funds from the Government free of interest. Besides, the managers of the branches have very little freedom to advance money even to suitable parties, and generally for all such matters they have to depend upon instructions from their head office, which cannot be expected to know so much details about the trustworthiness of the parties as the local manager who is on the spot. It is on account of this that the opening of more branches of the Imperial Bank of India has been a failure.

4. The hundis and credit instruments used by the local bankers are generally hundis or negotiable instruments with stamp which are being sold by the Government and also demand pro-notes printed on ordinary paper, whereon a revenue stamp of anna 1 to 4 is being affixed as per regulations of the Indian Stamp Act.

5. The methods of granting loans are that the bankers first of all satisfy themselves about the position and status of the party who approaches them for a loan and then for approved parties they allow cash credits up to a certain limit fixed by them. Generally they give loans for a period of three months, but in certain cases where the parties are very sound, they give loans repayable even after six months or more.

Generally the source of providing themselves with money is the Imperial Bank of India, with whom they discount the hundis for three months, received by them from the parties. They have got ample capital of their own also to do the business, but over and above that if they require money, they will go to the Imperial Bank of India or any other bank whichever is more profitable to them. The Imperial Bank of India competes in this business. Knowing the names of the parties who take advances from the bankers from the hundis discounted with them by the latter, they approach the parties to have dealings with them directly, or in case the parties have prior dealings with the Imperial Bank, they insist upon them to stop the dealings with the bankers, under threats that their dealings with the bank would be stopped in case they continue dealings with the bankers. The result of this is that the parties request the bankers not to discount their bills with the Imperial Bank of India and the bankers in order to satisfy their constituents have to keep back a major portion of their bills either in their box or try to dispose of the bills in the local market or give the bills to banks other than the Imperial Bank, which is thus deprived of a substantial portion of business, which in the natural course of things ought to go to the Imperial Bank.

The Imperial Bank of India not only competes in periodical business but even in demand draft business which is directly concerned with the trade and agriculture of the country. They do not have fixed rates for their business, which is harmful to the interests of the trade in general. In former days, the rates for demand drafts used to be the same throughout the year, and on the strength of this, indigenous bankers used to have fixed rates for them with the merchants who send their merchandise to the different parts of India, with the result that everything was going on systematically and methodically without any hitch. Now the case is otherwise. The Imperial Bank has no fixed rate but the agents have been authorized to quote different rates according to the times and the state of the money market, which creates a very great trouble to the public at large. For example, if a banker, considering that the bank had last time taken one-sixteenth commission for a demand draft on Calcutta, charge his constituents $\frac{3}{16}$ or $\frac{1}{4}$ per cent, but on going to the Imperial Bank find that the rate is $\frac{1}{4}$ per cent, you will yourself realize how awkward he will feel; for, he will never like to give his whole commission to the Imperial Bank. The result will be that he will have to return the bills to the parties who will have no other go but to pay something from their own pocket, for the goods will have already been despatched and the invoice also sent to the party at the lower rate of commission. Besides, the indigenous bankers in order to finance their business have to draw money from their other offices, wherein they see that they have got money in excess. For this generally they have to go to the Imperial Bank, as it has several branches in various places. It has been found from experience that at times the Imperial Bank accepts from such shroffs demand drafts for Rs. 50,000 at a time but at another time when the shroffs require money and relying on the bank they come to discount a demand draft for Rs. 40,000 they are informed that their demand drafts up to Rs. 20,000 only will be accepted. An indigenous banker relying on the Imperial Bank will have promised so many business people to give them money and they all will be waiting in his office. How awkward he will feel at that time if he is disappointed like this and how difficult he will feel at that time to manage the deficit of Rs. 20,000 all of a sudden within that short time!

Moreover, it has been very recently found that small parties who after despatching their merchandise will approach the indigenous bankers for giving them money, are now called upon by the Imperial Bank of India to give business direct to the bank, and the bank gives them more facilities and charges them less commission than even the bankers. The business which the bank used to get through the bankers is being received by them direct from the parties, with the result that the bank not only loses the responsibility of the bankers in the matter but also gets less profit. In this way the bank tries to cut short the business of the bankers, thereby putting itself also to a loss at times. The records will show that there would have been so many losses to the bank on account of their taking this policy, while losses through the business transacted by them with the bankers will be practically nil.

Generally the indigenous bankers allow interest on deposits from 3 to 6 per cent.

6. The rate of interest charged by the bankers to all their parties varies according to the rate of the Imperial Bank of India, for they keep a small margin of 2 to 3 per cent over and above the rate of the Imperial Bank. The rates are reasonable and do not require a change or reduction.

7. There is no prejudice whatsoever against the indigenous bankers.

The law is deficient to safeguard the interests of the bankers inasmuch as during the present times so many debtors resort to insolvency proceedings after arranging previously for their families, etc. The reason for this is, that there is competition in every line of business and people are unable to make their both ends meet from the income of their business. If, on the average, people find loss in their business, they at once resort to I.P. This could be avoided if the offenders, namely, those who easily find a shelter in the I.P. are dealt with severely and made to account for the loss in a clear and legitimate way and even afterwards they should be made liable to pay the debts, in case they are in a position to pay. Besides, the present regulations also require a little change so far as the indigenous bankers are concerned. The present court procedure takes a very long time and in the meanwhile dishonest persons take advantage of this and fraudulently alienate their properties during the pendency of the suit. Under the circumstances, my suggestion is that all suits of the indigenous bankers should be tried by the summary procedure and that if prayed for by the plaintiff (who should be banker) the properties of the defendants should be ordered to be attached without delay or at least the defendants should give an undertaking to the court that they will not alienate their properties without the permission of the court. Besides, the suits filed by the bankers should be given preference inasmuch as they should be taken for trial and decided with the least possible delay. Further, the debtor's insolvency petition should not be allowed unless he is brought under arrest in a decree and he proves that he is unable to meet his debts. Seeing the insolvency procedure very cheap the debtors and creditors adopt this course without considering the consequences. So, the Provincial Insolvency Act requires some proper amendments. Further, it is well known the insolvency matters are delayed in the courts for years together; so the law should be amended that if the majority of creditors pray the court to appoint trustees, the court should select two or three big and honest and trustworthy creditors to manage the estate and all the powers of the Official Receiver should be given to those trustees and by this procedure the matters will be closed soon and without any loss to the creditors.

8. This class of bankers can be more serviceable to the community or public in general, if they receive more banking facilities from the Imperial Bank. The bankers should be considered as agents of the Imperial Bank and therefore I suggest that every kind of business should come from them, as used to be the case in former days. They should be given a wide scope for business and care should be taken to see that they give all or major portion of their business to the Imperial Bank rather than to other banks. This will encourage them to do their business on a very large scale. They themselves standing as endorsers, the bank's money will be secured by

them; they themselves should be allowed to discount their bills at the current rate of the Imperial Bank throughout the year. This kind of arrangement will show good results and thus prove of great help to the trade and commerce of the country. Besides the crores of rupees lying idle in Government chests will be used for the furtherance and advancement of trade and commerce of the country. It is not necessary for the Imperial Bank to increase their branches hereafter but they should work through the agency system above proposed. The great advantages of the system will be that the shroffs being local men can know local conditions better and will therefore prove more helpful in developing local trade. They themselves being liable in the matter, they will take great care to see that the money is being utilized in sound concerns and the public also will have their accounts with them freely considering that they have the help and co-operation of the Imperial Bank. The bank, if it so desires, may have a separate officer appointed for the purpose of enquiries about the nature of the parties, with whom these shroffs do business. The cash-keepers or other officers of the bank should not be entrusted with this important work, as at present, because they have got their official duties to attend to and they hardly find time to make enquiries.

Another way of solving this problem is that some of the bankers may be appointed as guarantee brokers and every business of the bank (so far as their dealings with the business people are concerned) should be transacted through them, as they may be considered as agents of the Imperial Bank. The agents may be required to give a security of a particular amount regarding the business they do for the bank. Such guarantee brokers will be able to show good results for the Imperial Bank and the bank need not be afraid regarding any loss by working through them. This kind of appointment of shroffs as guarantee brokers may be made after careful enquiries. For undertaking all this they should be allowed a certain commission on the work transacted through them.

We are of opinion that the majority of the Directors and the management of the Imperial Bank should be Indians and it will be only then that they will have an interest in the Indian trade, and then alone they will have the confidence of the general public and, if necessary, the supervising work should be left in the hands of the non-Indians.

The Imperial Bank should give temporary overdrafts to all the bankers and also to approved parties and should charge bank rate of interest for the same. Besides, they should give at least 2 to 3 per cent interest for sums in deposit with them in current accounts. This will greatly induce the landlords and other rich people to deposit their money with the Imperial Bank, instead of utilizing the same in the purchase of diamonds or other valuables or keeping the same with them in their safe, as at present.

The Imperial Bank at present takes its own time in the matter of passing cheques or in the matter of issuing drafts or telegraphic transfers. They have to go through a lengthy procedure of having them passed by various officers of the bank, thereby causing great delay, which naturally tires the patience of the public and they prefer to have accounts with the bankers rather than with the bank. Parties whose hundis are discounted by the bankers with the Imperial Bank of India, in order to avoid such sort of delay while paying the money for their hundis and getting them back, prefer to give the money to the bankers even a few days before the due date and the bankers have to pay the same to the bank on the due date. If arrangements were made to have every line of work separately, the work would be expedited. The bank administration should realize that the bank is for the convenience of the general public and therefore they should not give undue preference to foreigners in preference to Indians. For example, if a foreigner comes to the bank for cashing a cheque, he is not only treated with respect and given a chair to sit on, but the officers of the bank see to his wants without delay and he goes satisfied within a short time, while any Indian constituent of the bank, whatever be his position, has to wait standing at the counter for a number of hours for receiving the value of his cheque. This should be put an end to as soon as possible.

The hundi stamp of $\frac{1}{4}$ per cent is heavy and therefore the merchants prefer to execute demand pro-notes on 1 to 4 anna stamp instead of writing periodical bills. If this is reduced, there is every probability of traders executing hundis on stamped paper. Hundis can very easily be discounted with the Imperial Bank of India or any other bank, but that will not be the case with demand pro-notes. If the stamp charges are reduced, the bank can get more business and also Government will be profited. In my opinion half-anna per cent is sufficient.

9. The indigenous bankers have very low expenses on account of their establishment, etc., and hence they have more profit in comparison with the branches of the Imperial Bank, having the same amount of work. Estimate cannot be made as it all depends upon their volume of business, the extent of their capital and the facilities given to them by the banks.

10. The indigenous bankers generally try to meet all demands for money of the parties, which appear to them to be sound. So far as the latter portion is concerned, it all depends upon the capital of the banker concerned and also upon the credit he enjoys with the Imperial Bank and other banks.

**Written evidence of M.R.Ry. Rao Sahib V. KRISHNA
MENON Avargal., B.A., President, The Malabar District
Co-operative Federation Ltd., Calicut.**

I.—Agricultural credit and credit facilities for small industries.

1. (a) Those who have to borrow for cultivation expenses do so either by borrowing in kind or by raising money by pledge of jewels.

(b) & (c) If the cultivator is a landlord, he utilizes his annual income for the purpose of capital and permanent improvements and borrows at the end of the year to make up the deficit in his family budget occasioned by his utilizing his annual income for permanent improvements. In very few cases loans are obtained from Government under the Land Improvement Loans Act. Instances of the last kind, however, are so few that they may be considered as negligible. In some taluks of this district the practice of pledging standing crops, such as cocoanut and arecanut, is resorted to for raising funds for annual cultivation expenses, for paying land revenue and for purposes of a permanent nature.

Twelve to eighteen per cent is the interest charged in the district, the period of loans being generally one year. When movable properties, such as crops and jewels, cannot be given as security, mortgages of landed property or improvements are given as security. As stated already, Government loans are very few and the Imperial Bank of India finances indirectly through joint stock banks, co-operative banks and other indigenous banks and bankers.

The defect of the present system is that those who are in a position to save money, viz., well-to-do landlords, vakils, doctors and Government Officials, obtain their income ultimately from ryots. This surplus appears as deposits in the Imperial Bank and joint stock banks. These deposits make up the working capital of these banks. Most of these funds are lent out to traders who, in their turn, utilise these funds for exploiting the agriculturists. When the agriculturists require funds, they have to borrow from indigenous banks and bankers whose rate of interest is 5 to 10 per cent higher than the rate in the Imperial Bank. The rate of interest on mortgage loans is generally lower than what is charged for other loans. Unfortunately, co-operative banks who have taken upon themselves the duty of financing the agriculturists directly on favourable terms of interest have not yet been able to achieve their objects to the fullest extent, though the lending rates throughout the Presidency have been appreciably reduced as a result of the working of co-operative societies.

The only remedy to my mind consists in organising the producers as a whole and lifting them out of their present disadvantageous position, by helping them to produce more and enabling them to market their produce more advantageously. The present method of advancing money on long terms in co-operative societies may be completely stopped by and by and funds made available on a larger scale to the producers and the Imperial Bank should afford greater facilities to the co-operative societies than they are giving now by allowing a lower rate of interest than 6½ per cent they charge at present on loans.

Concentrated efforts should be put forth by the Development Department for studying the conditions of production and marketing each crop separately and suggesting improvements and showing practically how they may be effected.

Government loans under the Land Improvement Loans Act are not very popular as the formalities to be observed by the ryots who apply for loans and the difficulty of satisfying the Revenue Officers in the matter of loans are often insuperable. When the annual budgets are prepared by Government, fixed allotments should be made for each district to be utilised for long term land improvement purposes. Land mortgage banks in convenient centres should be floated in each district and the funds provided in the Government budget may be distributed among these banks as funds contributed by Government share capital.

2. *Marketing principal crops.*—The principal crops in the district are paddy, cocoanut, arecanut, pepper and ginger. Paddy produced in the district is hardly sufficient for the consumption of the people and a large quantity of rice has to be imported into this district. Cocoanut, pepper, ginger and arecanut are the real money crops for the ryots, of which all but arecanut are chiefly exported into foreign countries and the whole-sale business is in the hands of influential export merchants. Arecanut, produced in this district, is almost entirely sold in the other districts of the Presidency, such as Nellore, Bellary, Anantapur, Bangalore, etc. Marketing conditions of all these crops are not at all advantageous to producers, and the unfavourable conditions, such as selling of standing crops to creditors, making forward contracts for supply of produce to any particular merchant, want of intelligent understanding of the markets where these produces are sold, the large number of intermediaries existing in the system of marketing, fraudulent weights and measures used by merchants, want of facility for communication resulting in the necessity for carrying the produce to market centres as head loads and want of combination among the producers, are the common features in the marketing of these crops.

A detailed description of the marketing of one of these crops, viz., arecanut, will exemplify my point.

Producers, when they require money for domestic purposes or for paying Government assessment, often pledge the produce, before they are actually formed, to the dealers. Borrowings generally take place in February and March. If the producer, for instance, borrows Rs. 25 from a trader, he executes a bond stipulating that 5 tulum (1,500 tolas are equal to 1 tulum) of nuts will be handed over to the trader within the next 6 months. The value of these 5 tulum is roughly Rs. 60. This hard condition is, however, not enforced in case the producer gives his produce for sale to his creditor. Notwithstanding the very rigorous terms of the contract, the trader pays the approximate market value. But if the producer fails to hand over the nut to the trader, the terms of the agreement are enforced through civil courts and for a loan of Rs. 25 for 6 months the producer is compelled to pay Rs. 60. This system exists only among the less well-to-do class of producers. Others—more solvent—borrow from the traders at 12 to 24 per cent interest, stipulating at the same time that the nuts produced in their gardens will be sold to the particular trader. In all undertakings where advances are given by traders, they insist upon getting the produce in their hands for sale. These conditions are highly disadvantageous to the producer, even though the market rates are given to him. The cost of plucking, peeling and curing nuts is to be met by producers themselves and they have no knowledge of the market rates. Accounts are not usually settled then and there and there is invariably some slight difference between the ordinary market rate and the price offered to the producers.

Difference in these items constitutes the traders' profit, which in all cases is not legitimate.

Some producers who have no necessity to borrow carry the raw nuts they produce, after peeling, to the market centres, where the dealers purchase these nuts and cure them. Generally, nuts are sold only between 4 and 10 p.m. There is combination among the purchasers and the producers are often driven to the necessity of yielding to the terms dictated by these traders, because raw nuts cannot be kept more than 24 hours, as they are to be cured within this time after plucking.

If producers are organised and if they are taught to pool their produce and grade them, they can secure better prices for their produce. Co-operative efforts will be very helpful in marketing their produce. Rural co-operative unlimited societies can lend money to agriculturists on pledge of crops with a condition that the produce be handed over to a loan and sale society organized in the midst of a group of unlimited credit societies. These loan and sale societies working with their share capital and funds raised by pledge of goods, can handle the produce, grade them and sell them in the best market and remit the sale proceeds to the unlimited societies. This procedure keeps the borrowers' borrowing power intact at the end of the season and the member of the society becomes eligible for a fresh loan again. District banks must afford special facilities for financing these loan and sale societies.

Products which are exported to foreign countries pass through brokers and import merchants and when they are shipped, the exporters draw on exchange banks against shipping documents. Facilities for internal trade are given by the Imperial Bank through other joint stock banks and shroffs. Want of sufficient number of branches or agencies of the Imperial Bank enable the other joint stock banks and shroffs to levy higher rates of interest from the ryots. If the question of opening a larger number of branches of the Imperial Bank is found to be impracticable, agencies for directly financing agricultural produce may be created temporarily during seasons, in as many centres as practicable.

In the process of marketing, the Imperial Bank is generally the ultimate source of finance. Joint stock banks and shroffs borrow money from the Imperial Bank on their credit and lend it to well-to-do shop-keepers and produce dealers in the interior. These persons in their turn lend out funds to agriculturists. The difference in the rates of interest between that of the Imperial Bank and that of the last lender varies generally between 5 to 10 per cent. The post office is the most popular channel for remittances. Three of the most popular joint stock banks, viz., Nedungadi Bank, Calicut Bank and Chalapuram Bank, have branches in the district and remittances of money between these branches and the head office can be effected at very reasonable rates. But considering the large needs for remittances to different parts of the district, the number of branches of these banks is insufficient. Co-operative societies have the privilege granted to them by Government for remitting money through the treasury, free of charge, from one society to another. Greater facilities can be afforded through the treasury in the following manner:—

(1) In places where there are no branches of the Imperial Bank or of joint stock banks, the treasury may very well accept money from the public and issue drafts on any other treasury on receiving reasonable remittance charges.

(2) By-laws of the co-operative central banks may be amended to enable them to discount bills and hundis and issue bills for remittance purposes to societies. Arrangements should be made for collecting these bills in all the branches of the joint stock banks and the Imperial Bank and the treasuries. These institutions can collect the bills through their head offices.

(3) In places where joint stock banks and branches of the Imperial Bank exist, the Government may co-ordinate them for the purpose of quick remittances of money.

Hundis emanating from our locality are generally discounted in the local centre but sometimes, owing to the favourable rates of discounts in provincial centres, they are sent to those places.

Railway receipts are freely used in raising money during the process of marketing. Railway authorities often protect themselves from any possible loss in transit by inserting conditions in the railway receipt itself—sometimes in an unreasonable manner without even examining the consignments. These conditions often stand in the way of traders and agriculturists from claiming damages arising from the neglect on the part of railway servants. Licensed warehouses in India will be beneficial to owners of produce, only when the producers have been sufficiently organized. Before this state is reached, if warehouses are established, the benefits arising from these warehouses will go to the middlemen only. The work of organizing the producers and helping them to look after their own interests is now undertaken by the Co-operative Department of Government and this work may be made more and more effective year after year.

4. In this district there are no land mortgage banks or agricultural banks providing long term credit.

Land mortgage banks are generally started with the assistance of the State and they may be established in all districts with separate share capital and directorate, but always working under a standard by-law for the whole Presidency and co-ordinated in their working by a provincial land mortgage bank. These provincial banks should have power to issue bonds for the constituent banks. There must be a separate department preferably worked by Government officials for appraising the mortgages. Interest

on debentures, subject to a certain limit, may be guaranteed by the Government in the early stages of the existence of the bank. Facilities for the sale of bonds and for raising funds by pledging them have to be created. A portion of the initial share capital must be supplied by the Government.

Legislation has to be introduced for the investment of insurance fund on long-term deposits in these banks. A complete system of registration of titles to land should be introduced and certificate issued for each land. The profits of the bank should be exempted from all taxes by Government or local bodies.

Sanction should be given by Government for investing trust funds in the purchase of land mortgage bonds.

Capital may be raised partly by local contribution and partly by Government aid—*vide* suggestion in answer to question 1 (b) and (c) (last paragraph).

(a) When documents are once executed and properly attested by witnesses and registered, the necessity for proving these documents again in Court should be dispensed with by legislation.

(b) Mortgages effected by borrowers in a land mortgage bank should be foreclosed and sold in the event of non-payment, without instituting a regular suit in a court of law.

(c) Share capital owned in a land mortgage bank should always bear a statutory proportion to deposits and other borrowings.

When the appraising is in the hands of Government officials, the public will gain confidence regarding the security of investment, but guarantee by the Government regarding interest on share capital may be necessary in the beginning.

If facilities for floating debentures and for raising funds on debentures are created and if the working capital of land mortgage banks can be placed above the minimum required for the profitable working of the bank, the contingency of the Government making up the deficit for interest would be remote.

For placing a limit on the risk, if any, the maximum of the guaranteed bond issued may be fixed by the by-laws of the bank.

I think at least 2 to 2½ percentage margin should exist between the borrowing and the lending rates in a land mortgage bank.

5. Many old agricultural families have contracted debts and they are often turned out of their holdings through the process of enforcement of old debt. When capitalists in the interior agree to advance money on mortgage of lands, they have always the ulterior motive of securing the land for themselves in the fullness of time.

When an efficient farmer is reduced to the state of a tenant at will by loss of his cultivable land, he certainly loses the incentive and ability to produce more.

6. The following cottage industries exist in this district to help the agriculturists in supplementing their income:—

Coir making and milling copra for oil.

All the industrial crops grown in this district, such as pepper, ginger, cocoanut, arecanut, and tapioca, are capable of great improvement for the benefit of the producer.

Preparation of starch from tapioca, preparation of coir-ropes and coir-yarn, spinning and weaving and poultry farming can be encouraged for supplementing the income of the farmer.

Working capital can be gradually collected in the locality itself where the enterprise is started, if non-official bodies of Government come forward to help the people to organize themselves and conduct the necessary initial investigations and experiments.

Co-operative machinery can very well finance these enterprises and I cannot think of anything better.

7. The Imperial bank finances co-operative banks by cash credit on the pledge of short-term promissory notes executed by societies. Some facility is afforded by the Imperial Bank in remitting money to and from the Madras Central Urban Bank and district banks.

There are no direct dealings worth mention between joint stock banks and indigenous banks on one side and co-operative banks on the other. In the matter of remittances of money, however, from central banks to societies and from societies to central banks, branches of joint stock banks are becoming more and more useful.

Members of co-operative societies require loans for short term purposes as well as for long-term purposes and till recently both these requirements used to be met by the central banks aided by the Madras Central Urban Bank from funds raised on short-term deposits. The continuance of this practice has brought the co-operative finance to a difficult situation from which it finds itself unable to escape. Unless facilities for long-term credit, side by side with short-term facilities, are placed within the reach of the members of societies, evil effects which have already resulted from the practice above referred to cannot be counteracted.

If co-operative institutions finance exclusively for short-term productive purposes and for marketing of produce and when these efforts become successful, the necessity for raising co-operative funds will have to be multiplied several times over and above the existing resources.

The concessions to be granted to co-operative societies have already been referred to in the answers to previous questions.

III.—Investment habit and attraction of capital.

1. In addition to the Imperial Bank, large joint stock banks and co-operative banks, there are a large number of indigenous banking institutions in the district. All these banking institutions encourage savings. The existing facilities for the investment of savings are sufficient. Co-operative societies in the interior are the best means for encouraging the savings habit among the people. The steps so far taken in this direction are inadequate. A large impetus to savings can be given by well-organized propaganda.

**Written evidence of M.R.Ry. K. VISWANATHAN Avargal,
Secretary, The Merchant's Bank Ltd., Tanjore.**

I.—Agricultural credit and credit facilities for small industries.

1. (a) For expenses during cultivation,
- (b) for capital and permanent improvements, and
- (c) for other special needs, e.g., failure of monsoon, for land revenue, etc.

In all these cases the agriculturists have generally easy resort to the indigenous money-lenders at a considerably high rate of interest. In some cases the agriculturists get loans from the merchants agreeing to repay in grains a certain number of bags during the harvest season. A very few percentage of them get an advance from the local co-operative societies and in one or two cases they get advances from the Government.

The rates of interest charged generally range from 12 to 18 per cent and the periods for which such loans are generally raised are 3, 6, 9, 10 or 12 months. In some cases the loans are raised by executing demand promissory notes by one or more persons. When the amount exceeds a certain limit which is to be judged by the respectability and standing of the parties concerned, mortgage deeds are executed on immovable properties.

In agricultural finance the Government plays no part at all. There is a provision to advance loans to mirasdars from the taluk treasuries for agricultural purposes which fact is not at all known to most of the agriculturists. Even if it is known to some, the great difficulties and delays caused by the naturally slow Revenue Department make it of no use to the agricultural population.

The Imperial Bank of India have no place in their confidential books for agriculturists, as they only advance to local money-lenders, indigenous bankers and other big merchants.

Joint stock banks to a certain extent help the agriculturists by giving small advances on the eve of the harvest on joint promissory notes and on produce throughout the year.

The co-operative banks in places where there are no political cliques, where there is no Brahmin—non-Brahmin or Hindu-Muslim differences may be said to be of some use to the agriculturists. Generally speaking, not even 10 per cent of the co-operative banks are working on real principles of co-operation. Further, co-operative banks have no restriction for higher class people getting advances.

The indigenous banks, etc., do really help the agriculturists during the times of their need, but the rates of interest charged are very abnormal and the agriculturist's position becomes worse day by day.

So far as the Tanjore district is concerned, Rs. 20 to 25 lakhs of capital is required for the agriculturists for the various purposes.

As already said, the Government should educate the agricultural classes by issuing leaflets to every village through the village headman so that every man paying a kist of any amount should know that the Government are advancing loans for agricultural purposes, the procedure to be adopted in raising the loans and the conditions thereof, etc. Again, the Government should see that such applications are dealt with promptly and the officers concerned should be held responsible if such applications are delayed.

Statements from Sub-Treasury Officers to Treasury Deputy Collectors with duplicates to the Accountant-General should be sent every week showing the details of applications and their disposals.

The Imperial Bank of India are soaring high as they are the bankers Government of India. They do not at all help anybody in the country but a handful of fat merchants.

Of course, they are now doing most of the treasury business and many of the branches are doing no other work but Government work. Unless and until a State Bank is started, they would be of no use to the general public, agricultural or mercantile.

Joint stock banks are helpless. Further, their business has been considerably hindered by the opening of a number of branches of the Imperial Bank of India. Generally, joint stock banks are single and in a very few cases they have very few branches. Joint stock banks should be worked subject to the control and supervision of district banks responsible to a reserve bank through provincial authorities though the local management should be in the hands of the local board of management. As already stated, co-operative banks should be made to work without any party feelings. Real sense of co-operation should be taught to the villagers and they should be made to work harmoniously.

There is no co-ordination among the various credit agencies and there is no scope for improvement under the present circumstances. There should be a reserve bank who should be bankers to the Government of India and other joint stock and co-operative central banks and the Imperial Bank of India, by whatever name it may be called in future. All these banks should be under the Provincial Audit who should report to the reserve bank as to the stability of each institution.

2. The main crop of the Tanjore district is paddy. A major portion of the paddy is generally milled within the district itself and sent to Colombo and the southern districts; the rest is required for local consumption. Most of the estates on the western ghats get their supply of rice from the Tanjore district. Paddy is sent to southern districts in general, and to Chettinad and Pudukottai State in particular from the Tanjore district.

Generally, big merchants and mill-owners of the district are financed by the Imperial Bank and by joint stock banks to some extent. Big merchants and mill-owners in their turn advance to mirasdars for their kist and other purposes and get in return paddy at a particular price fixed by the money-lender. Generally, these merchants go on purchasing and stock paddy till July or September. They sell away paddy if it is profitable or they mill it and sell away the rice if there is a greater demand for rice.

Banks and bankers issue drafts and hundis and by letter and wire payments, they remit amounts from one place to another. Bank cheques also are used to a limited extent.

The public are not well educated as to the facilities given by banks in general and particularly in remitting amounts from one place to another. Consequently, most of the people generally insure big amounts in two halves and run great risks and losses.

Negotiable instruments do not play the part they ought to in the internal trade of the province. It seems that they have succeeded to a certain extent only in cities where there are clearing houses. Certainly, the reduction of stamp duty and notary charges will also help the further use of bills. Again, in cases of bills accepted through a bank and noted for non-payment by a notary public, the law courts should pass their decrees without any further costs or on receipt of a nominal cost.

II.—Indigenous banking.

1. Most of the above banks advance amounts on the mortgage of immovable properties and jewels and on pro-notes executed by one or more persons for periods of 3, 6, 9, 10 and 12 months. In cases of pro-notes the amounts are repayable by daily, weekly or monthly instalments and, generally, interest is taken by the lender even when he pays the amount of loan, which system is very profitable to the lender.

2. Indigenous bankers can be said to be practically helping agriculture, trade and industry of the district, say to the extent of 60 per cent.

3. The indigenous bankers generally start with a very small capital. The Imperial Bank of India and joint stock companies help them to a certain extent. They easily influence the public and get deposits which, in some cases, rise to several times the capital.

There are instances where private bankers started business with a nominal capital of Rs. 10 or 20 thousands and transacted more than Rs. 15 lakhs within a period of 15 years. Finally when the accounts were closed they had a surplus of Rs. 1, 2 and even 3 lakhs in some cases.

Generally, the expenses incurred by them, especially in courts, are abnormal. The Income-tax Department is their enemy and they set aside many items of expenditure actually incurred.

4. Indigenous bankers use generally demand hundis and in some cases hundis payable with interest at a particular rate between a specific period after which interest ceases to accrue. These hundis are very much prevalent among merchants, especially in places where there is no joint stock or other bank.

5. Generally, indigenous bankers grant loans on pro-notes executed by one or more persons; generally the time allowed is 3, 6, 9, 10 or 12 months. In most of the cases the interest for the period of settlement is deducted beforehand from the advance itself and the full amount of the pro-note is to be repaid by daily, weekly or monthly instalments as per agreement between the lender and the borrower.

In some cases immovable properties worth about a certain amount are given as security and the party is authorized to draw on the firm to the extent of 40 or 50 per cent of the worth of the property. At the end of every year interest is adjusted to the account and the party's confirmation is taken. Again, in many cases they advance on the mortgage deed executed on immovable properties for a certain number of years.

6. Indigenous banks and bankers have generally a credit limit with a branch of the Imperial Bank of India or a joint stock company or with a big banker and they draw by issuing cheques or hundis. Further, as a considerable portion of their investment is repayable by daily, weekly and monthly instalments, they can every day find a certain sum due to them and collect it.

They allow an interest of $4\frac{1}{2}$ to 9 per cent for deposits depending upon the bank rate and local money market but the rates of interest collected for the loans range between 18 to 30 per cent.

11. In every taluk town there should be a joint stock bank with local directorate and these banks may act as bankers to indigenous banks who should give all the facilities to the villager along with the co-operative banks. All these joint stock banks should have a district bank which should allow a certain limit of credit in consideration of the working and paid-up capital of the respective banks. The district bank should be financed by the reserve bank through the provincial authorities who should have a set of auditors under them who will be duly directed to inspect the joint stock banks in particular areas and forward reports in addition to the audit of each bank by its elected auditor.

12. It is more in the Imperial Bank of India and joint stock banks and district co-operative banks that heavy sums are lying idle for a part of the year without being invested. The causes that can be attributed to this dullness are—

- (1) Undue consideration shown to debtors by Judges in Courts of Law.
- (2) The troubles of the Income-tax Department.
- (3) Lack of encouragement from bankers to merchants, i.e., bankers have undertaken to deal in different commodities instead of lending the money to those merchants who deal in them.

All surplus funds can be directed towards land mortgage banks which should grant loans to big mirasdars and zamindars, who are badly involved in debts and cannot find any way out of it for long periods. It is a practical lesson in this district that a number of big mirasdars said to be worth about Rs. 10 or 20 or 30 lakhs have been already ruined and are still being ruined for want of sufficient accommodation to settle their debts which may be after all 30, 40 or at the most 50 per cent of their worth.

III.—Investment habit and attraction of capital.

4. The cheque has become very common in mercantile centres and in places where there is at least one bank. But the villagers generally do not yet have any idea of a cheque. By the abolition of stamp duty cheques have become more prevalent among merchants.

5. It is a fact that banking and investment habit in India is of very slow progress. The main reason for this is want of more joint stock companies and due support for them. Again, the once Bank of Madras, and now the Imperial Bank of India, has created more a kind of fear than an attachment in an ordinary Indian.

If there is a joint stock bank in almost every taluk town, that will help the masses a great deal to easily acquire the banking habits.

Written evidence of the Secretary and Treasurer, The Tanjore Permanent Fund, Limited, 1087, Mission Street, Tanjore.

Nidhis or funds have been in existence only in the Madras Presidency, especially in the southern portion of it, and there do not seem to be any corresponding institutions in other parts of India. Similar societies restricted in their scope to buildings have been in existence in Great Britain from a very long time. Since they are the institutions on which the nidhis have been modelled, it will be useful to consider at length their principal features.

The building society in Great Britain is practically a building and loan association and a form of co-operative savings bank. Its chief advantage over the ordinary savings institution is that its funds are used by the depositors themselves in their own interests and not placed at the service of businessmen and corporations. Every member has a voice and vote in the management of the association and shares in the profits. A board of managers has charge of supervising the business of the association. As now commonly organized, they issue a fraction of the capital stock, usually one-tenth, in what is known as a "series" and require that it be paid in monthly instalments, commonly "dues"—usually at the rate of £1 per month on a share of stock, the par value of which is £200. Whenever the monthly payments, plus the accumulated profits, equal the face value of the shares, the series is retired. A series usually extends over ten to twelve years.

The money obtained by the association is loaned to shareholders who desire to buy or build homes. No member can borrow more than the face value of his shares. Thus, the man who has subscribed to five shares may borrow as much as £1,000 (if sufficient funds are on hand). When the amount in the treasury is inadequate to meet the wants of all who wish to borrow, the loan is awarded to whoever will give the highest premium for the use of the money; this "premium" consists in the payment of a few shillings on each share, above and beyond the interest required by the association.

As a rule, the money paid into the association by a borrowing member during the life of the series in which he is interested amounts to little more than the rental price of the mortgaged property for the same period; hence, it is sometimes said by those who get homes with the help of a building association that "the rent pays for the place". The borrower who regularly pays his dues and the interest on his loan will in a few years find himself in possession of paid-up shares which will cancel the principal of the debt when it becomes due and leave him owner of his house without encumbrance.

Some of the associations buy land, build houses and sell or let them to such of their members as want them. Most of them, however, do not undertake the building of houses but simply lend the money for it. And as these loans are perfectly guaranteed, they serve as investments for the savings of those members who are obliged to wait a long while for their turn or of those who do not purchase a house. So that, these societies act even more as savings banks than as building societies.

These associations are not governed by the Companies Act (1908) but by special Acts—Building Societies Act (1874, 1875, 1884, 1894). They are incorporated by registration by the Registrar of Friendly Societies with whom their rules, which correspond to the articles of association of a company, must be lodged. The Registrar has extensive powers of control. The annual accounts must be sent to him and he may, under certain circumstances, order an inspection of the books, or convene a special meeting. He has power to cancel the certificate of incorporation if it has been obtained by fraud or for other specified causes.

The earliest nidhi was started in Madras in 1858 and was called the "Sudder Court Fund." The next nidhi was the Mylapore Hindu Permanent Fund, started in 1872. Its memorandum and articles of association

were apparently based upon the English Building Societies Act with suitable modifications so as to bring within its scope the granting of simple loans and loans on the pledge of jewels and other securities. Much progress does not seem to have been made during the next few years, though a few more nidhis on similar lines were started in Madras. From the year 1882 onwards, nidhis began to be started in stations outside Madras and their progress became more rapid from that time onwards.

The Government, seeing the great advantage accruing to people from the nidhis, passed for the first time the Co-operative Credit Societies Act (X of 1904) under which it gave special privileges to societies registered thereunder in the matter of registration and stamp fees, income-tax, etc. Inducements were also held to various nidhis to register themselves under the new Act. But, owing to the very restricted scope of the societies registered under the Act, owing to the maximum limit of the transactions allowable under the Act being very low and owing to other causes, very few existing nidhis registered themselves under the Act although a very large number of fresh societies were formed under it.

These nidhis have achieved remarkable results in the way they have been able to help the poor and middle classes. Within the limits they have until now worked, they have also been managed fairly efficiently. Within the last seventy years or so of their life in this Presidency, the indebtedness they have helped to relieve and the individual capital they have helped in accumulating have been so great that there can be only one wish about their future—that they should be placed on a basis which will be permanent and which will not be subject to any attack of illegality. Nearly 300 nidhis are working at present supplying the very real need of the urban and rural population of the Presidency which cannot boast of an adequacy of banking facilities and many of them working for the last half a century and more, so much so that people have grown to regard them as an integral part of the economic frame-work of society.

The essence of these societies is mutuality. The definition of such a society by a high authority may be quoted: "It is a group of men united to help one another by a common contribution of funds which are to be lent out to members only for their benefit. All profits derived from the transactions are to return to the members so that all benefit, the non-borrowing members by the receipt of profit and the borrowing members by the use of the loaned capital and by a portion of the profits which they have contributed to the society. The funds proceed from the subscriptions of members chiefly and to a small degree from deposits. Generally, the nidhis do not borrow except by deposits. The object of the nidhis may be described as the facilitation of savings, the relief of members from old debts, the deliverance of them from usury, the accumulation of a fund for special purposes, such as marriages, the grant of loans on good security for special purposes whether domestic ceremonies or maintenance, for expenditure on jewellery, on house-building and repairs, for purchase of land, etc." No loans are granted to non-members nor on personal security only, so that there is absolutely no element of speculation or adventure at all in the working of the society. The primary object of the society is not at all acquisition of profits by trading.

The societies cannot therefore be compared with joint stock companies formed for purposes of trade and profit but only with the Building Societies of England and the United States and like these, they have been serving a most useful purpose in the public economy of poor India. Soon after the passing of the Companies Act of 1913, the Government of India wanted to take measures for the regulation of these nidhis in relation to the new Act since these differed fundamentally from the joint stock companies in that there was no fixity of share capital and since by their very nature they could not conform to several of the requirements of the Act (e.g., section 55, etc., relating to share capital). Since this Presidency alone was interested in the matter, the opinion of the Madras Government was asked. And on a reference by the latter, the then Registrar of Joint Stock Companies suggested two alternatives: (1) that nidhis could continue to be registered as companies limited by shares but should be exempted from the operation of certain sections of the Indian Companies Act, particularly sections 55 to 58, which restrict the reduction of share capital, and (ii) that subscriptions should be regarded not as shares but as deposits and that nidhis should be registered as companies limited by guarantee. The Government of Madras

rejected the second alternative on the ground that there was not, in fact, any guarantee provided and that the real nature of the transaction should not be dissembled by recourse to the fiction of a guarantee. So they supported the first alternative and the Government of India was asked to make the necessary amendments to the Act.

The Government of India, however, pointed out that the constitution of *nidhis* could not be made conformable to the Indian Company Law and that the remedy was an enactment of a special measure to provide for their incorporation and control. The position was thereupon examined in 1913 and the Local Government came to the conclusion that no separate enactment was necessary and that the *nidhis* should be left to adjust themselves either to the Indian Companies Act or to the Co-operative Societies Act. The matter was then dropped for the time being.

In 1923 the subject was once again revived at the instance of the South Indian Chamber of Commerce and the result was that a circular was issued at the instance of the Government of India by the Registrar of Joint Stock Companies, Madras, to all the *nidhis*, placing the views of the Government of India before them and putting forward some proposals for discussion. The Government of India laid stress on the fact that it was a fundamental principle of Company Law that a company limited by shares should not be permitted to reduce its share capital without the sanction of the court and that they considered it undesirable that the *nidhis* should, while purporting to conform to the Act, systematically ignore this fundamental principle. They did not also agree to exempt any company or class of companies from all or any of the provisions of the Indian Companies Act, since they desired that uniformity should be maintained in the administration of the Act throughout India. Under the circumstances, they put forward three alternative courses—firstly, the reorganization of *nidhis* as a new class of companies in addition to those limited by guarantee and the unlimited companies; secondly, their reorganization as a new class of associations to be regulated by special legislation; and thirdly, their suppression as illegal associations. The Government of India plainly hinted that the second alternative was the only one which found favour with them.

On receipt of this circular, a conference was convened at the instance of the Tanjore Permanent Fund, at Tanjore, in May and July 1928, which was attended by the representatives of almost all the prominent *nidhis* of the Presidency and several resolutions were passed by the conference. A copy of the resolutions was duly forwarded to the Registrar of Joint Stock Companies and the matter appears to be engaging the attention of the Government.

The following are the principal resolutions passed by this conference :—

(a) Having regard to the fact that the *nidhis* are benefit societies which are necessary institutions for the economic progress of all classes of society and have given entire satisfaction to the public for more than half a century, working as they do under the Indian Companies Act of 1913 and 1882, this conference is unanimously of opinion that no separate Act is necessary to govern them.

(b) This conference is further unanimously of opinion that the *nidhis* should be allowed to continue to be governed by the Indian Companies Act of 1913 which expressly refers to such societies in section 136 clause I of Act VII of 1913 and section 69 of Act VI of 1882.

(c) This conference is also of opinion that the *nidhis* should be expressly exempted from the operation of sections 55 to 58, 101 clause 3, 104 and 108.

(d) This conference is finally of opinion that it is neither possible nor desirable to modify the organization or the working principles of *nidhis* for the purposes of conforming to all the provisions of the Companies Act without exception.

Of the alternative proposals put forward by the Government of India, the last, viz., the suppression of *nidhis* as illegal associations is quite unjust at the present stage in view of the deep root which these *nidhis* have taken in the economic frame-work of society and in view of the immense good that they have been rendering to the public. In this connexion, it may be pointed out that every civilized Government having always the interests of its subjects at heart, fosters institutions like the *nidhis* which have taken root and never desires to suppress them on the score of non-compliance with technicalities. With regard to the second suggestion that these *nidhis* might

be recognized as a special class of associations and brought under special legislation, it may be pointed out that a special law will be required only when the existing law could not be so shaped as to govern these nidhis. Hence, one has to examine in what way the working of the nidhis is not possible under the present Act and how remedies have to be proposed to make the Act apply to these institutions also.

The principal sections of the Companies Act which are a source of trouble and difficulty to these nidhis are sections 55, 57, 58, 92, 93, 101 to 104 and 108. These sections, therefore, require detailed consideration :—

(a) Sections 55, 57 and 58 prohibit a reduction of share capital without the sanction of the court. That is, under ordinary circumstances, the shares in a company are non-withdrawable. But the very object for which a nidhi is started distinctly contemplates the retirement of the share-holder by lapse of time or withdrawal and consequent reduction of the capital contributed by him. Secondly, there is a reduction of share capital practically every day and share-holders come and go. Under these circumstances, there is no meaning whatever in the prohibition that the capital of the company could not be reduced or paid back to the share-holder without the sanction of the court. No question of the interest of any creditors of the company being at all affected or prejudiced by such a transaction can possibly arise in the case of nidhis, because the only persons who can be said to be creditors are the share-holders themselves, as even in the matter of deposits, nidhis receive them only from share holders. Unlike other joint stock concerns which receive deposits from share-holders and others also. Hence the objections by creditors contemplated by section 58 of the Act cannot at all exist in the case of nidhis. There has been, however, recently a bolt from the blue, the Madras High Court passing a decision based on these sections (reported in the pages of the "Hindu") that all withdrawals of share money are illegal and that the Official Receiver in the case of a liquidated company will be entitled to have all the retired share-holders added as contributories. This has created great alarm and hence the law has to be amended at the earliest possible stage by exempting these nidhis from the operation of those sections. It need hardly be pointed out that, all along, neither the subscribers nor the Government could have had the remotest idea that, by taking shares in nidhis, a person rendered himself and his heirs liable without any fixity of time to all future losses.

(b) The next set of sections 92 and 93 relates to the prospectus of the company and its being filed with the Registrar before it is issued as well as the particulars that it should contain. These provisions are quite unsuitable to nidhis since fresh subscribers have to be admitted from day to day and they have to be furnished with a copy of the articles of association or the chief rules extracted from the said articles. In fact, there is no other prospectus for these nidhis except copies of the articles of association. It is obviously impossible and futile to require a nidhi to file a copy of the said articles with the Registrar every time a new member is admitted. Therefore, the nidhis have to be exempted from the operation of sections 92 and 93 and it will not at all entail any harm to the public.

(c) The next set of sections is sections 101 to 104. Sections 101 and 102 relate to allotment of the share capital of a company and the effect of irregular allotment. There can be no allotment at all, properly speaking, in a nidhi, as allotment can only apply to cases of fixed capital while the shares of nidhis are fluctuating. As Justice Bakewell put it (in O.P. No. 127 of 1914, Madras High Court) these amounts paid by subscribers of nidhis are in the nature of recurring deposits rather than the value of shares. Further, in the case of nidhis, 5 per cent of the share capital cannot be ordinarily paid because it consists of monthly instalments extending over periods of 24, 45 or 84 months. Section 103 relates to restrictions on commencement of business, which have no meaning whatever in the case of nidhis. Section 104 relates to sending the return to the Registrar about allotments. It is obviously impossible in the case of nidhis, as allotment of new shares are made day by day. And further, the taking up of shares by subscribers cannot be called allotment of shares as applied to joint stock companies. Under these circumstances, the nidhis have to be necessarily exempted from the operation of sections 101 to 104 of the Act and this exemption also cannot possibly harm the public in any way.

(d) Section 108.—Section 108 relates to certificates of shares. It is a misnomer in the case of nidhis as it implies that the shares could never come to an end and that the person holding the same must be a share-holder for

all time to come. The object intended to be served by the share certificate is completely achieved by the receipt book which is issued to each subscriber in which his register number, his address, the number of shares held by him and the various payments made by him are all entered. Section 108 could therefore be very well made to exclude *nidhis* from its operation without any detriment to the public.

These are several sections which are inapplicable to *nidhis* fundamentally, since the shares in *nidhis* are quite different from the shares of joint stock companies. The further question which will arise, if these *nidhis* are to be governed by the Indian Companies Act, is whether a *nidhi* could be brought under the existing definition of "Company" and the only amendment that will be required for this purpose will be to treat the *nidhi* as a new class of companies registered under the Act in addition to the companies limited by shares, those limited by guarantee and the unlimited companies. There can be no harm in adding this fourth class of companies.

The Indian Legislature, while copying the English Act relating to companies, completely lost sight of the fact that the English Act applied only to the companies which did not come under the provisions of the Special Acts, such as the Building Societies Act, the Friendly Societies Act, etc., and has made it applicable also to companies which would not come under the purview of the English Act. For example, the submission of the summary and the annual list under section 32 of the Indian Companies Act serves no useful purpose and is unsuited to *nidhis* like ours. The section evidently was intended for companies having a fixed share capital, the whole or a portion of which is offered to the public on one or more occasions and which offer is closed after a certain time. The shares are then allotted and they never cease to exist except on forfeiture of them by non-compliance with the rules of the company. On the contrary, the shares in the *nidhis* generally come to a termination as already stated on the expiry of the terms fixed in the articles of association as in the case of building societies in Great Britain. And in the Building Societies Act which governs these institutions, there are no similar provisions requiring the annual list and the summary to be sent to the Registrar.

The exemption of *nidhis* from the operation of the various sections mentioned above will not in any way affect the efficient control by Government over the working of such *nidhis*, which has been sufficiently provided for in other sections of the Act. The annual and the half-yearly reports prescribed under the several sections of the Act give detailed information about the internal administration of the *nidhis* in addition to the balance sheet and the profit and loss statements which are also submitted to the Registrar every year after they are adopted by the general body at the annual meeting. Public attention has been sufficiently aroused in respect of these *nidhis* and the general body of members, which is the supreme authority in matters of internal administration, can be expected to supplement the powers of supervision which have been given to the Registrar under the Act. Under these circumstances, requiring the *nidhis* to conform to certain technical conditions is nothing short of a burden on them and is sure to stand in the way of their efficient working. The attention of the management is distracted by some of the voluminous returns required by the foregoing sections which do nobody any good. In the interests of all the parties concerned, the *nidhis* have to be exempted from these superfluous requirements and their retention within the purview of the Indian Companies Act, after such exemption, is quite feasible and necessary.

Having thus dwelt at length on the position of the *nidhis* in relation to the Companies Act, it may not be out of place to devote a few lines to the typical activities of these institutions. Among these, our *nidhi* has, within the short time it has been in existence, come to occupy a very important position in the district and in the Presidency and has a large number of subscribers not only throughout India, but also in Burma, Ceylon and the Federated Malay States. It has been the means of salvation for a large number of families by enabling them to get out of debt by payment of small monthly subscriptions. As a channel of investment, it helps people by accumulating their savings and giving the same back to them in an appreciable form and with a guaranteed interest which works out to five per cent compound interest. The savings per month are imperceptible while the accumulation comes in handy for a rainy day or for a sudden emergency.

The framework on which the transactions of the fund are conducted is the shares thereof. These shares are payable at the rate of Re. 1 per month for 45 months. At the end of 45 months, the subscriber is paid Rs. 50

per share in addition to the amount of profits he gets within these 45 months. The Rs. 5 given in excess over the Rs. 45 paid by him represent the interest granted by the fund. These amounts, which aggregate to a respectable figure in spite of the fact that the individual contributions are small, are available to the subscribers for loans at low rates of interest. In fact, in the present state of the money market, our rate of interest on "ordinary" loans is probably the lowest— $6\frac{1}{2}$ per cent per annum. These ordinary loans are advanced at the rate of Rs. 50 per share, the method of repayment being the payment of the share amount every month together with interest on the amount of the loan outstanding, at the rate of $6\frac{1}{2}$ per cent mentioned above. At the end of 45 months, the shares mature and the loan also gets discharged automatically. In addition to the amount of Rs. 50 granted as ordinary loan for each share, a further amount of Rs. 100 per share is available as special loan in the case of immovable property and Rs. 250 per share in the case of jewels. In respect of these special loans, the amount of the shares has to be paid monthly and also interest on the amount of loan outstanding at the rate of $7\frac{1}{2}$ per cent per annum. Of course the payment of the share amount cannot liquidate the entire loan advanced and the only convenience in these special loans is that a portion of the loan amount is repayable monthly while the major portion of the loan is repayable at the borrower's convenience, but within the period of 45 months in any case. This arrangement is mainly intended to help the agriculturist who cannot afford to liquidate the entire loan amount by monthly instalments but who can pay monthly to some extent and pay the balance at intervals, within these 45 months (by sale of the harvested grains or otherwise). A still further concession is also available by his being permitted to pay even the interest once in six months, but the rate of interest payable in this case is slightly higher, being $8\frac{1}{2}$ per cent. Even then the rate is lower than that levied by the primary co-operative credit societies.

Loans are granted, in addition, on the security of produce, jewels, etc., and the interest charged is here also the lowest— $6\frac{1}{2}$ per cent. Thus, the facilities afforded by the fund are very great both from the aspect of saving and from that of helping with credit. Provided the borrower pays his instalments regularly, the fund is the best place for raising loans. Like the co-operative societies, we place a premium upon honesty but we also take into primary consideration the sufficiency of the security.

The subscribers get loans from the fund for all sorts of laudable and legitimate purposes. Purchase of a house, of lands, of plough bulls or of seed paddy and celebration of marriages are some of the most frequent reasons for raising loans.

The criticisms so cheaply and generally made against nidhis cannot be said of well conducted institutions like ours. For instance, it is not correct to say that there is no effective check over the secretary and directors of the fund. The former is under the control and scrutiny of the directors and the actions of both are always subject to being set right by the general body of members. This arrangement is similar to what exists in regular joint-stock concerns and except vague statements which cannot be substantiated, nothing else can be said against it. Again, from the fact that some nidhis have no reserve fund, a general charge is made against all nidhis. Our nidhi has got a reserve fund of over one and three-quarters lakhs of rupees. In spite of the fact that loans are advanced by us only on substantial security, provision is still made every year for bad or doubtful debts. Every year, a qualified auditor is appointed by the general body to examine the affairs of the nidhi and the result is that as good a scrutiny is made of the nidhi's affairs as is done in any joint stock company.

Thus, the nidhis can compare favourably with most joint stock institutions and they can as efficiently be governed by the Companies Act, provided they are exempted from the operation of the several sections mentioned above. The nidhis have come to stay and there is no meaning in talking about their suppression at this stage. The duty of the Government is to devise measures to place them beyond any criticism and it has been shown above, in pardonable detail, how the Companies Act can with suitable modifications and exemptions be made to govern these institutions. It is earnestly prayed that in the present banking enquiry, this controversy about their legal position may be set at rest and that they may be made to contribute to the economic welfare of the people in future in as abundant a measure as in the past.

**Written evidence of Sriman BISWANATH DAS Mahasaya,
B.A., B.L., M.L.C., Berhampur, Ganjam District.**

*1.—Agricultural credit and credit facilities for small industries. **

1. (a) The cultivator in my district always depends on the village money-lender for advancing him either money or grain for his cultivation expenses. The period of transplantation and sowing is so short and sudden, owing to the uncertainties of the monsoon, that it is not possible for the cultivator to go to distant places to borrow for his cultivation expenses.

(b) As a matter of course, no ordinary ryot is ever able to effect any permanent improvement to his holding owing to his poverty, however much he is anxious to do so. In ryotwari tracts such improvements are effected by the bigger and richer class of ryots. In some cases clever people also avail themselves of the Land Improvements Loans Act to improve their holdings. In zamindari areas under the sharing system none of these is possible unless the zamindar himself improves (which he never does) either the holdings or the irrigation works which feed the holdings. If rarely there is a well-to-do ryot, he has no inducement to do it as the zamindar takes away a full half of the gross produce and sometimes more. In addition to this, he has to pay half the cesses payable to Government. In case where lands are commuted into money rents the fear of enhancement of rent is still a red rag, as the sections relating to the registration of land improvements in the Estates Land Act are cumbersome and the whims of the Revenue Officers uncertain.

(c) No person except the village money-lender advances money in cases of special needs during failure of crops and in famine years. During the last famine in 1918, I know of cases where the landholders realized their dues out of the money advanced by Government as takavi loan. It is, therefore, idle to expect any zamindar to advance money to cultivators. Co-operative societies are really useful to the *pattadars* in ryotwari tracts for the payment of land revenue. It is a misfortune to the zamindari ryot. Co-operative activities in zamindari areas cannot exist without the zamindar as his rent is a first charge on the holding. Grant of money to these village societies by the co-operative bank depends upon the recommendation of the zamindar or his officials. Rack-renting is also due in some cases to inducements to secure loans from the banks for the village societies on easy terms.

The rate of interest prevailing in the district for all loans below Rs. 1,000 is generally 15 to 18 per cent and in zamindari tracts 15 to 20 per cent or sometimes more. The securities given are lands and houses. In zamindari tracts no person takes security of the crops because of the zamindar and all the uncertainties of sharing attached to it. The Government finance agriculture by means of loans under the Agriculturists Loans Act and the Land Improvements Loans Act. These are generally confined to ryotwari tracts and do not benefit the zamindari ryot. The Imperial Bank does not finance agriculture. Its activities are concerned with the trade in agricultural produce. Co-operative banks finance agriculture as already stated above. Merchants and dealers generally do not finance agriculture and, if they do so, they do it on condition of repayment in grain at the minimum price and interest. Hence, ordinary agriculturists are loath to take such advances. The village money-lender is thus the only person who finances agriculture besides the co-operative societies. I think that about a crore of rupees may always be necessary to finance agriculture in my district.

The defect in the present system lies in the fact that there is no co-ordination and co-operation between the existing agencies. The rate of interest charged by the Imperial Bank is very high. Its calculation of compound interest in every quarter sets a very bad example for village money-lenders and provides them a justification for insistence of compound interest. Its term of short credit for six months is not at all useful to the agriculturist. If the co-operative societies take up the advancing of loans on the security of agricultural produce and land mortgages and advance

money to village creditors to a minimum limit on condition of their advancing to the ryots on easy rates of interest, the existing difficulties of the rural population will be minimized. Such advances on the security of agricultural produce will afford inducement to the forming of pools and contributions among agriculturists for joint effort in marketing produce and keeping such produce for profitable seasons.

2.

3. In my district—Ganjam—there are practically no lands which produce two wet crops. There is a difference in price between ryotwari and zamindari lands and the same difference is visible in zamindari areas between cash paying and sharing lands. In any event the zamindari lands always fetch less than 25 per cent of the price of the ryotwari lands. The price paid in auction purchases is hardly an indication of the real value of the land. The price in auction sales held in pursuance of court decrees is highly approximate and depends upon the presence of bidders which again depends upon due notice. I, therefore, give an estimation of the price by private negotiation. Land yielding dry crops may be available for Rs. 100 to Rs. 150 per acre. In zamindari areas where there is sharing, even in dry crops, no land fetches more than Rs. 75 to Rs. 80 per acre.

Light paddy lands or lands rainfed or with small irrigation works to feed fetch Rs. 200 to Rs. 250 per acre. Heavy paddy lands with small irrigation sources fetch Rs. 300 to Rs. 500, while in zamindari areas, due very often to the non-repair of irrigation works, similar lands fetch Rs. 200 to Rs. 300. For lands with good irrigation sources, the price is Rs. 800 to Rs. 1,000. Such lands are rare in the zamindari tracts of my district and, consequently, I do not know of any zamindari land except wet lands in Parlakimedi Estate fetching more than Rs. 500 to Rs. 600 an acre.

4. There are no other banks giving long-term credit in my district. The following are the legal impediments to mortgage of land and agricultural holdings:—

(i) In some of the zamindaris, lands are not surveyed.

(ii) Even where they are surveyed, a record of rights has not been prepared to give the creditor the nature and the extent of the interest of the borrower in the land.

(iii) The zamindar's share in the produce is not known as it varies in different villages and zamindaris as also the illegal cesses collected by the zamindars.

(iv) Above all, the rent and its arrears are a first charge on the holding. Since the landholder under the Estates Land Act can wait for three years for his arrears, the creditor is often not able to know the amount of rent due and hence the credit of the ryot to contract a loan is undervalued. Consequently, creditors not only advance small amounts but also insist upon higher rates of interest. To obviate these difficulties I would suggest the following course of action for all zamindari areas:—

(a) The Government should at least follow the Act and the rules, while sanctioning operations under the Estates Land Act; and

(b) to enforce survey and record of rights and fixation of cash rents under Chapter II of the said Act, as was done in Bengal soon after the Bengal Tenancy Act was passed.

As regards the suggestions called for in question No. 4, the following are some of them which may be worth mentioning:—

(a) The record of rights should be kept in the Sub-Registrar's Offices and brought up to date noting all the mortgages or charges contracted;

(b) the period for fore-closure in the Civil Procedure Code is too long; and

(c) after acting up to the suggestions stated above in (a) the cost of inspection and grant of public copies of the record of rights should be made cheaper. Those records should also be kept correct and accurate and up to date.

5. Indebtedness of the peasantry is the order of the day. Reference to the Registration Department does not give us even the approximate data, nor is it possible to depend upon the estimation of the Income-tax Officers, which are highly approximate and incomes below Rs. 2,000 are left out of account. It is not, therefore, possible to get into the correctness of the estimation of the actual indebtedness. Since the banks in future have to advance money on proper security, the mortgages from registration offices, the credits of the Co-operative Department and the agricultural loans from the Government will give an idea of the actual indebtedness having a charge

on the land. To speak of one village called Dhunkapoda (within the Attagada Estate) where I have my farm, the indebtedness of the ryots to the extent known to me is about Rs. 16,000, i.e., a little less than twice the annual rental payable to the zamindar. My approximate estimation of the peasants and their indebtedness in the Ganjam district under these heads may amount to Rs. 60,00,000.

Regarding the purpose for which debts are incurred, items (a), (b), (c), (d), (e) and (f) only are worth consideration. To my knowledge a small fraction of 1 per cent go in for loans from Government for improvements of holdings. In zamindari areas this is totally absent. Contracting debts under items (g) and (h) are unknown in the district. For purposes mentioned in (b), (i.e., social functions) the tendency now is to cut down the expenses and hardly do they resort to loans for these. Loans for purposes in (f) are of two kinds. Peasants who take to sugarcane, yam, betels, etc., generally contract loans for purchasing manures, while borrowing for seeds is general. Debts contracted during famine and crop failures are the general causes of chronic indebtedness. This is more intense in zamindari areas where the ryots under a system of commuted money rent have to pay full rent both in years of crop failures and famine. Such debts are generally due from village money-lenders who take with compounded interest but wait for long periods. I have already spoken of the interest charged by these money-lenders and have known of a number of old and industrious families turned into tenants at will as a result of old debts. This tendency is intense in ryotwari tracts. The zamindari lands under sharing system have little attraction for the creditor unless he himself is a cultivator.

II.—Indigenous Banking.

1 & 2. The indigenous banks known in the district are the money-lenders. Their sole function is to lend money or grains or both. Very often these money-lenders receive grains towards their interest or capital or both. They stock such grain and sell when it fetches a good price. In this way they finance agriculture and also help the local trade.

5 & 6 are already answered in Part I.

7 & 8. The villagers have no prejudice against indigenous bankers except in stray cases. The village bankers are not sufficiently protected. If they were, they could be induced to bring down the rates of interest. To quote our own case, our rate of interest extends from 9 per cent to 18½ per cent. Our 9 per cent is lower than the interest allowed by the Imperial Bank, with all its advantages of longer term and payment at convenient times. It is also better than the village co-operative loan owing to its longer duration and collection in times of convenience. If the protection afforded to the co-operative banks is extended to the village money-lenders, they will be quite willing to finance agriculture at a cheaper rate of interest. I, therefore, suggest that certain individual village money-lenders may, by themselves, be taken as co-operative societies as an experiment on condition of each advancing money at a specified rate of interest. This will be appreciated by the illiterate villagers who, in some cases, have to tip the office-bearers of the village societies to get a loan.

9. After making allowances for collection, legal expenses both direct and indirect including tips, stamp expenses, difficulty of getting possession of immovable property, whimsical estimate of the Income-tax Officers with the heavy rates of income-tax and the attendant troubles and dangers, the net income of any village money-lender, on the whole, does not exceed the Imperial Bank rate. That is the reason why we lend money at 9 per cent where there is good security and easy means of realization. The village money-lender is not able to meet all the demands. Even where he can, the insecurity and uncertainties attendant upon land, as he has already been alluded to, make him enhance the rate of interest.

11. The village bankers may conveniently be linked with the provincial capitals if each of them is regarded as a co-operative society as is indicated above with a limited amount of credit in proportion to his property. In such advances the main condition should be to lend money at a specified maximum rate of interest. If this is accepted, nearly all big ryots will take up to this system of lending money. Competition among themselves may still bring down the rate of interest to a margin of profit less than what is now kept for the village societies. They will also be saved from ruinous litigation expenses in realizing their debts.

**Written evidence of M.R. Ry. H. S. KAMESWARA RAO Garu,
M.A., B.L., Assistant Agent, Polavaram.**

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturists in this division obtain loans from the *shahukars* (money-lenders) for expenses during cultivation, for capital and permanent improvements and for other special needs such as failure of monsoon, for payment of land revenue, etc. The rate of interest varies from Re. 1 to Rs. 2-8-0 on Rs. 100 per mensem. On large amounts and for small amounts in case of urgency the interest is sometimes levied at 6 pies per rupee per week. The periods will generally be from three months to three years in the case of large amounts. Generally, crops, cattle, lands and jewels according to the urgency and the stability of the borrower are given as security. In cases of necessity the borrower also makes a present of a cow or a she-buffalo with a calf giving milk. In Polavaram and Chodavaram divisions, no loans have been applied for and granted either under the Agriculturists Loans Act or under the Land Improvement Loans Act under the special rules in this division, as most of the hill-people resort to *shahukars* who have been lending them money. In Yellavaram division a sum of Rs. 500 was granted last year as loans under the Land Improvement Loans Act. There are no branches of the Imperial Bank of India, joint stock banks and indigenous banks and bankers. There are co-operative societies in a few villages noted below and the hill-men take little interest in these societies:—

Polavaram division:—

1. Jannareddigudem.
2. Polavaram.
3. Bayyanagudem.
4. Kannapuram.
5. Dippakayalapadu.

Chodavaram division:—

1. Chodavaram.

Yellavaram division:—

1. Konalova.
2. Jaddangi.
3. Rajavomangi.
4. Addategala.
5. Timmapuram.

The co-operative societies are not in a progressive state. There are professional money-lenders, merchants and dealers in the Agency who advance money, grains, cloths and other necessities to the hill-people on payment of high rates of interest for cash and double the quantity advanced in the case of grain and pulses. As for cloths and other necessities they demand a large amount of Agency produce such as tamarind, soapnuts, etc., in return. We may roughly estimate at Rs. 1,00,000 the capital required for the various purposes stated above. Though Government advance loans under the Agriculturists Loans Act with special facilities and by opening co-operative credit societies, it requires a real effort to divert the hill-tribes from their old practice of borrowing money from money-lenders. The hill-tribes are highly conservative and unsophisticated. The only remedy that is left is to establish more societies and to popularize them.

2. A portion of the produce is generally taken by the money-lenders to the market and the rest by the cultivators. The possibility of forming pools and of co-operative efforts generally in marketing produce will be of immense use to the hill-people and save them from the clutches of the *shahukars*. Even here, a real effort is required. No hundi system is prevalent in the Agency.

3. The value of wet *inam* land on which single wet crop is raised varies from Rs. 400 to Rs. 800 per acre and of *jirayati* from Rs. 300 to Rs. 500. In the case of dry *inam* and *jirayati* lands the cost per acre varies from Rs. 15 to Rs. 300 per acre. The above transactions relate only to private negotiations. In the case of the lands sold, in Government villages for non-payment of revenue and in the event of sale by court decree the rate will generally be less than the rates quoted above and also depends upon the place where the land is situated and sold, and also on the combination and competition of the bidders at the time of sale.

4. Yes. Act I of 1917 (Land Transfer Act) and the recent Government Order on the subject restrict the hill-tribes from alienating their lands by sale, mortgage or otherwise. There are no land mortgage banks or agricultural banks in this division. The money advanced from the co-operative societies can be recovered on favourable terms on the produce by instalments. In the case of those other than hill-tribes, who are not governed by Act I of 1917, loans can be granted by co-operative societies on the mortgage of their lands so that they may not be at the mercy of the money-lenders.

5. This requires a detailed investigation. There are cases in Polavaram division in which efficient farmers are being turned into tenants and their landed property passed into the hands of creditors. Such cases are very few in Chodavaram and Yellavaram divisions. The introduction of Act I of 1917 is for safeguarding the interests of the hill-tribes.

6. There are five rice mills in Polavaram division. There are no industries of any kind, in the other two divisions. In Polavaram division there may be scope to improve cottage industry such as basket-making, bamboo-matting and the like.

II.—Indigenous banking.

The indigenous banking system is not prevalent in the Agency.

III.—Investment habit and attraction of capital.

The existing banking resources are the co-operative societies. The people are habituated to invest their savings in the purchase of silver and gold for making jewellery. In cases, where they can afford to make large savings, they generally invest in the purchase of lands.

2. Cash certificates are not popular in this division. The Savings bank affords all possible facilities to the civilized population who resort to such a form of investment. The hill-men generally spend away their money in drinking and spend large amounts in performing marriages and death ceremonies. It is desirable to use vernacular scripts in banking. The status of the hill-men can be improved by establishing a greater number of schools and giving them free education by opening agricultural farms and by encouraging cottage industries.

**Written evidence of M.R.Ey. T. N. KALIDOSS Avargal, B.A., B.L.,
Advocate, South Rampart, Tanjore.**

I.—Agricultural credit and credit facilities for small industries.

1. India is a land of agriculture. In the Madras Presidency the chief occupation of the people is agriculture. About 90 per cent of the people are agriculturists. With reference to the Tanjore district, famous for its fertility from olden days and known by the appellation of "The garden of Southern India," the people are wholly dependent on agriculture which is their chief and primary occupation.

The agriculturists are divided into three classes: (1) The higher or rich mirasdars and zamindars; (2) the middle classes; and (3) the lower class of farmers. The first class of people own vast lands which they almost lease out to the second and third classes, for a fixed yield for a certain number of years. Sometimes the zamindars have no direct interest in the land but they get a certain share in the produce, i.e., they come under the category of estates wherein the *kudivaram* right belongs to the middle class and the *melvaram* right alone is retained by the zamindar for which he gets a fixed payment, something like the Government cess. Rich mirasdars engage the farmers to work in their lands for fixed monthly wages and thus have a direct interest in agriculture.

The middle class of people own a few acres of land and they cultivate them by their own labour and sometimes with the assistance of the farmers. In addition to this, they cultivate the lands of the richer people on lease.

The lowest class of farmers have practically no lands to call their own, but they engage themselves to work under the above two classes of agriculturists either for fixed monthly wages or for daily wages. They also cultivate lands under lease and also under *varam* tenure.

Thus, the agriculturists fall into three heads. Now to cultivate the lands and to improve them money is needed. It is very rare that the first class borrow money as they themselves are rich and may have reserves. If at all they borrow, they borrow from the banks on security or pledge and also from their rich and thrifty neighbours on security, pledge or promissory notes. But this is very rare.

It is the middle class who suffer most from financial difficulty. They borrow from their overlords of the first class, on promissory notes which they repay from the produce by equal instalments. They also obtain money from co-operative societies on security of lands and persons and also from private money-lenders on a high rate of interest which is calculated according to the urgency of the borrower and also the general finance of the village at that time, the interest ranging from 9 per cent to 18 per cent or even 24 per cent.

The lowest class generally have no difficulty at all with regard to finance. It is the mirasdars, under whom they work, who spend the money for cultivation; and, if they happen to borrow money, they borrow it only from their overlords on promissory notes and thus cultivate the lands of their masters. They borrow money for buying bullocks and seeds, which they repay by instalments in produce. They also borrow for marriage, death, etc., for which they pledge themselves to work under the lender for daily wages till the time of repayment which is done in annual instalments without any interest for the sum borrowed. Generally, this class is not affected by monetary difficulties.

As regards the capital and permanent improvements, money is raised from co-operative societies, private money-lenders and to some extent indigenous banks. The Government play a prominent part under this head as they give loan to the agriculturists at a cheaper rate of interest than the market rate, i.e., 6 per cent. Generally, the first two classes of people resort to this method.

As regards clause (c) the co-operative societies give a helping hand to the agriculturists by giving short-term loans on security of land or person. This is availed of by many agriculturists.

To my knowledge the rate of interest varies in proportion to the amount of loan taken and also to the period of loan taken. Much depends upon the security furnished for the loan. For example, if A, a rich person with no previous loan to his credit, borrows from B, a neighbour, Rs. 1,000 and above, on landed security for seven years or so, the interest charged is 7 per cent per annum. On the other hand, if the same person borrows on a promissory note, the interest charged is 9 per cent. If the loan is for a short term than the interest is 10 per cent. If the loan taken is Rs. 100 then the interest is 12 per cent. Moreover, if a middle class man borrows, then the interest charged is 1 per cent higher than the above rates. The above case applies only to private people who want to invest their savings on good security. Generally, for the landed security the interest charged is from 7 per cent to 9 per cent, whereas for pro-notes, the rate is from 9 per cent to 18 per cent (even 24 per cent) in proportion to the demand in the market, the period and the amount of loan.

Generally, the pledging of standing crops for loans is not in vogue in this district, except in a few cases where private banks give advances on such security. Even there, the crops are gathered and stored in godowns and then only the bank grants loans on the security. There are provisions in the Co-operative Department to give loans on such a security but this is rarely followed.

Loans are also given to persons who execute to the lenders an *othi* deed for a period of time until the loan is redeemed. In this case the land is transferred temporarily to the lender for a fixed period of time to be enjoyed by him in lieu of the interest on the debt taken, after which it should be redeemed at par. In some cases lands are transferred to the lender for a fixed period to be enjoyed by him both for interest and principal.

In some parts, money is lent to farmers on personal security, i.e., the farmer should work for the lender who will be generally a landholder, till the period of redemption without interest.

Loans are also advanced on movable properties, such as houses, jewels, etc.

Generally, banks and co-operative societies grant loans on personal security and also on the fixed deposits invested there.

The general tendency of the people of this district is to keep secret whatever transactions they do. In these parts the people who require loans never do things openly, i.e., they negotiate loans *in camera*. That is the chief reason for the increasing number of insolvency cases. They borrow secretly from one person a large amount on landed security and then raise loans on promissory notes from another person and thus go on multiplying the list of debts to such an extent that they find it difficult to repay and thus become insolvents. These are chiefly due to the secret negotiations of loans and the losers are chiefly the private money-lenders. They have not yet got into the habit of obtaining loans from Government or co-operative banks, as many of them dread publicity.

Moreover, the income from agriculture is gradually tending to decrease. The income is from 3 to 6 per cent at the most, whereas the interest for loans ranges from 7 per cent to 24 per cent. This is the rate that prevails during good season when there is no failure of monsoon and *vis major*. On the other hand, if agriculture is conducted on modern methods, the income is 50 per cent higher than can be derived by the ordinary method. Even then, there is no possibility of making both ends meet. The result is that the interest and the loan gradually assume a big proportion and the agriculturists has no other way of discharging the loans save by selling the lands. This is the plight of many agriculturists in this district.

Though the Government sanction loans at 6 per cent interest for agriculture, yet the ryots never take full advantage of it for the following reasons:—

(1) The ryots are by nature apt to raise loans in secret rather than raise them openly.

(2) Though the interest is low when compared with other organisations, yet the loan is not available at once.

(3) The annual collection of the loan is not properly safeguarded, e.g., suppose the loan is collected during the kist season, January, February and March; then it is inconvenient to the agriculturists, as the harvest is done only in the end of February and as the paddy will not fetch a high price to the advantage of the agriculturist. Therefore, the annual payment should be fixed to the advantage of the ryot giving full allowance for *via major* and the mirasdar's capability to repay by deducting his expenses and calculating upon his net profit. So much so in many cases to my knowledge, the debtor fearing for the Government, raises loan on a high rate of interest and thus repay the loan to the Government. Thus the very object of the Government is frustrated.

(4) The Government should encourage the agriculturists by propaganda work through their officials to avail themselves of the loan and also should be indulgent.

Few agriculturists avail themselves of loans from the Imperial Bank of India where the rate of interest for loans is 9 per cent which is high. On the other hand, the Imperial Bank offers loans to co-operative banks on low interest, i.e., about 6 per cent which the latter offers to the co-operative societies who disburse the loan to its members at 8 to 10 per cent.

With regard to joint stock companies and co-operative banks, the latter have begun to play an important part in agricultural finance.

Defects.—Some defects have been pointed out in the above answers.

Suggestions.—Loans should be given freely by the Government at 6 per cent to the needy agriculturists and they should co-operate with the co-operative credit societies in the rural parts to help the ryots. The redemption should be on easy terms to the advantage of the ryot. The ryots should be educated by the revenue officials and village officials about the advantageous use of the loan (which is the sole reason for the ryots to keep aloof from the Government loan). The co-operative credit societies should be given the discretion to collect the loans issued by them to the advantage of the ryot and not to the dictates of the central bank. The interest should be low so that people may take loans in the society.

As the major income comes from land revenue, the Government should have an eye on the property of the ryots. They should help the ryots with all they could by lowering the rate of interest on loans advanced for agricultural purposes.

The defect in the working of the above banks to the relief of the agriculturists is that the period is too short to repay the loan. Secondly, the interest is high. It should be uniform with Government loan at 6 per cent. It should be recovered both from the ryots as well as the societies during the period when paddy sells at a high rate so that the ryot could pay easily. Though this is one of the chief maxims of co-operation, yet it is not given effect to in practice.

The indigenous banks play a little part in agricultural finance. They give loans on the produce marketed and their interest is high (now 9 per cent and four years back 17 per cent).

Professional money-lenders play an important part. The transactions are done secretly and they have no scruples to squeeze out a heavy interest from the debtor. Like the sowcars of North India, the Nagarathars play an important part in these parts. They lend on high interest (from 12 to 24 per cent) and take out advance interest on the loans given. Generally, the middle class people and the lower class people never go in for loans at their hands, especially for agricultural purposes.

Merchants and dealers have no direct interest in agriculture except the marketing of the produce. Nowadays, a good deal of propaganda is going on among firms dealing with fertilisers and there are propagandists, in different districts, who advise the use of chemical fertilisers. The Agricultural Department is helping them to spread the use of fertilisers. It is a fact that a large number of people have begun to use chemical fertilisers.

2. As soon as the harvest is over, the agriculturist stores up the crops so that he can sell it at a high price. Except under extraordinary circumstances such as marriages and financial stringency the crops are not sold

**Written evidence of the Secretary, the Tinnevely District
Co-operative Banking Union Limited, Tinnevely.**

1.—Agricultural credit and credit facilities for small industries.

1. (a) The agriculturist in our district obtains finance from the landholder for expenses during cultivation.

(b) Capital and permanent improvements are seldom made, since they are considered to be not paying. The *takari* loans are not properly utilised. Men who attempt to improve the land with borrowed capital don't thrive as a rule. The borrowing results in many of them disposing of their lands. The landholder is seldom the cultivator in the wet area.

(c) For other special needs the agriculturist borrows money partly from the landholder in village parts and partly from the sowcar at an appallingly high rate of interest.

The cultivating tenants and the poor tradesmen of the locality often borrow money at a rate ranging from 36 to 48 per cent. The period for which the loans are taken is generally from 3 to 6 months. A personal security is often obtained besides the security of the standing crop. The Government disburses *takari* loans to the agriculturist; but what is given is only a small fraction of what is needed in the district. The only satisfactory feature about it is that the collection of the same is regular, but it is to be very much regretted that it is never out of the income derived from the land. The Imperial Bank of India and other joint stock banks help the agriculturist only by advancing money on the pledge of agricultural produce.

Regarding the co-operative banks.—The borrowers themselves being the masters of the purse, the banks seem at present a success. But year after year there is a steady increase in the overdues and it is time that ways and means are found out to reduce the overdues. The poor agriculturist without proper education finds himself handicapped as he is confronted with difficulties such as failure of monsoon rains, low price for his commodities and such other adverse circumstances which render his lot a very difficult one. As it is, the poor agriculturist suffers from one cause or another which makes his lot a very difficult one. No year can be said to be favourable from purely an agriculturist's point of view. Every villager needs a certain amount of money while raising a crop and an equal sum till the sale of the produce. To market the produce profitably the village needs a godown for stocking the same. This the co-operative institutions cannot afford to have at present. Therefore the Government will have to come forward and build at least one godown in each Revenue Inspector's *firka*. The same may be given for the use of the co-operative institutions.

The Government should release a portion of their reserve for making advances for the agriculturist through the co-operative institutions as in the United States of America.

To prevent fraud, the loan advanced on standing crop should be made the first charge on the same and the law should be amended accordingly.

2. The formation of pools in marketing produce is an absolute necessity for the welfare of the farmer. To pool the produce in marketing will prove successful; but human material is wanting owing to want of technical education.

3. The value of double crop wet land ranges from Rs. 1,500 to Rs. 4,500 per acre.

Dry land:—

(a) Lands seldom come for auction for non-payment of land revenue.

(b) & (c) Much difference is not noticed between Government auction and private negotiation.

4. There is no legal impediment. It is in the interest of co-operative institutions that *patta* should be issued every year. For usufructuary mortgages changes of *patta* are necessary and ordinary mortgages should be noted in the *patta*.

(c) Regarding the working capital of land mortgage banks, we are in favour of debenture bonds, adequate provision of long term and credit against sound security.

The law should be so modified that no land mortgaged to a land mortgage bank should be partitioned among the inheritors until the mortgage is redeemed. There must be an enactment in the absence of the parties' common consent.

5. At least in each Revenue Inspector's Firka, besides the granary mentioned in paragraph supra, an allied industry to the produce should be started, e.g., ginning factory in the cotton area, rice huller in the wet area, oil press in the gingelly area. The plant, etc., should be owned by the Government and the depreciation charges, running expenses, etc., should be collected from the tenants.

II.—Indigenous banking.

1. The deposit banks form the majority of the banks in our district. Some of them do hundi business also. The private banking is conducted by Chettis and accountants who have put in a few years' service with the Chettis. Joint stock banks are few.

2. These banks scarcely help the agriculturists. Industry is absent. For trade purposes money is lent by them at a high rate of interest.

3. (a) In our district the capital is mostly raised by deposits. The average capital owned by each bank is about Rs. 1,00,000. Every widow is a banker who lends a few hundreds on the pledge of her poor sisters' utensils and jewels.

(c) The expenses amount to less than a hundred a month.

(d) There is no co-operation in this district among the bankers. Most of the indigenous banks look to the Imperial Bank for an overdraft.

4. Cash credits are allowed by indigenous bankers only to local merchants. Security bonds are often secured for the same. Non-traders raise loans on security bonds and mortgage deeds.

The bankers generally depend upon chance deposits or overdrafts in order to meet their obligations.

The present rate of interest for current deposits is from 3 to 4½ per cent and that for fixed deposits is 6½ per cent.

5. The agriculturist has to pay 12 to 18 per cent by way of interest to the banker.

Real remedy for the reduction of the high rate of interest lies in real mass education. Co-operative societies must come forward to supply the farmers with seeds and manures and they must have also improved agricultural implements to be hired by the agriculturist.

At this stage it is to be feared that a reduction in the rate of interest on sums lent to the poor ryots of the villages will lead to a nearer and surer ruin. All improvements must emanate from true mass education and rural reconstruction.

6. There is no prejudice against the indigenous banker. He is respected in almost every village. The absence of such a banker is sorely felt and he is eagerly sought for.

Legal protection to a banker is necessary, which, if given, perhaps will lead to the reduction of the rate of interest. Money advanced on the standing crop should be made the first charge on the same. The document executed in the presence of the village officer must be considered sufficient. Every man who deals in transactions of this kind must maintain regular accounts, however small his transactions may be. Every transaction should be noted therein, in the absence of which there is no protection for the poor.

**Written evidence of M.R.Ry., U. RAMA PANIKKAR Avargal,
the Managing Director, Thoyakkavu Bank. Limited,
Thoyakkavu Branch P.O., Chowghat, South Malabar.**

I.—Agricultural credit and credit facilities for small industries.

1. (a) By borrowing from money-lenders.

(b) Do.

(c) Do.

The rates of interest about 36 per cent.

Only few loans from Government, Imperial Bank of India, the joint-stock banks, but more from indigenous banks and professional money-lenders.

More than 50 lakhs of rupees.

There are no systematic rules in money dealings.

There is no co-ordination—some sort of co-ordination is necessary.

2. In marketing principal crops there is no method.

Co-operative effort in marketing is good.

The hundis are not discounted in local centres.

3. (a) Low value.

(b) High.

(c) Higher.

4. There are no land mortgage banks or agricultural banks in this district. Each and every landholder will take shares.

(a) Title-deeds of the properties.

Government guarantee is necessary.

5. From Sub-Registrar's office, banks, co-operative credit societies and money-lenders.

The debt is largely to money-lenders.

The more debts come under the heads, (a), (b), (c), (d), (e).

To indigenous bankers and professional money-lenders.

Twenty-four per cent compound interest.

Yes.

Yes.

6. Advance money on low rate of interest. Then these industries will have good effect.

Through the Co-operative department.

7. Between co-operative banks, joint stock banks and indigenous banks, there are no relations.

The members of the co-operative credit societies want more long-term loans. But the societies will not give such loans because they get loan for a short period from co-operative banks.

There is competition between co-operative and joint stock banks in the direction of interest.

II.—Indigenous banking.

1. They lend money on quarterly payments, monthly payments, weekly and daily payments.

They take a certain amount as commission.

2. Not to a very great extent.

3. (a) By shares and *kuries* (chit fund).

(c) Not much.

(d) No relation.

6. This interest is very high.

By reduction of interest the agricultural community will be benefited.

7. Yes.

Not on sound lines.

**Written evidence of M.R.Ry. CHELLARIAN KARUVAN Avargal,
Member, District Board, Calicut.**

I.—Agricultural credit and credit facilities for small industries.

1. *Finance*.—In parts of the district removed from towns where any one should look for the real condition of the cultivator, he obtains finance as follows:—

(a) For the purpose of answering this question, the cultivators may be divided into three classes, the rich, the mediocre and the small. The *first* is able to reserve the sale-proceeds of his produce and spend during seasons of cultivation. The *second* reserves the produce itself and pays the coolie in kind, or sells a part of it or borrows from his rich neighbours, if there are any or pawns jewels in one of the urban banks and pays the coolie in coins. In few cases only these jewels are redeemed. The *third class*, viz., the petty landholder and cultivator is in a neglected and helpless condition. He does all the work himself with the help of women and children of his family. For paddy cultivation the seed is borrowed by them at a very high rate of interest payable in kind from either the mediocre or the rich cultivator. Co-operative banks are in a small measure helping all classes of cultivators, but for want of character both in the managers of these banks and in the members that take loans, the relief has not been appreciably felt.

(b) Only those who can find money from other sources like trade, public service, contract, etc., ever think of improving their land. For instance, in a joint family, if a brother is a trader or a contractor or an inspector of excise or police and is able to send some money to others who stay in the family house carrying on cultivation, land is improved. Small holders seldom think of any improvement in which an investment is necessary. Want of security in the possession of land is also a serious deterrent. Here again, in a few instances, money is borrowed from urban or co-operative banks and invested on improving land.

(c) Failure of monsoon is met by borrowing from others and by starving. But in my district this trouble is not very serious. For land revenue, renewal, etc., great difficulty is felt in finding finance and the resources already described are resorted to.

The result of all these has been that for some years now the condition of the agriculturist has been getting worse. In North Malabar, where the price of pepper has steadily increased, it is not so bad as in the south.

Rate of interest.—1. When paddy is borrowed and, as usual, is payable in kind, the rate is 20 per cent compound and even more.

2. When money is borrowed from private persons the rate ranges between 12 per cent and 30 per cent.

3. In banks the rate is usually 12 per cent though by tricks of calculation it is sometimes raised to 12½ per cent. In co-operative banks the rate is about 11 per cent.

Part played by banks.—1. Wherever properly managed, co-operative banks afford a little relief to all sorts of cultivators.

2. In the case of agricultural finance by Government, there has been only very few cases in which help was sought and received. This is due to the co-operation of two powerful factors, namely, (1) the ignorance of the cultivator and (2) the difficulty of correspondence, combined with the indifference and even arrogance and covetousness of the officers and clerks in charge. If any step taken by the Government is to be useful, side by side with it the people should be educated along certain lines.

2. *Marketing crops*.—Principal crops are sold in all instances to middlemen, who either before the crops are ripe (sometimes a year before as in the case of pepper and paddy in certain villages of North Malabar)

or just when they are ripe offer the value to the cultivator. Cultivators are entirely controlled by the wishes of these middlemen, who form several links between the cultivator and the exporters. The cultivator has no idea at all of the condition of foreign trade or world-market.

Co-operative effort will do good, if it establishes a direct relation between the producer and the manufacturer and make the money of the world-market flow into the hands of the cultivator without much evaporation. I would once again point to the character of the people which has to be improved by various modes of education.

3. *Value of land.*—The value in purchase by private negotiation in Malabar is as follows:—

								Per acre.
								Rs.
Paddy fields	..	..	..	..	..	..	..	600—1,000
Cocoonut gardens	..	..	..	..	..	..	..	1,000—1,500
Pepper gardens	..	..	..	..	..	..	..	No fixed price can be given; it depends on the current price of pepper.
Waste land	..	..	..	..	..	..	..	50—200

When land is sold in auction under a court-decree, the value is much reduced, sometimes even by 50 per cent.

5. *Conversion of landholders into tenants under money-lenders.*—The agricultural classes are gradually running into debt in all parts of Malabar and one phenomenon that may be observed is the conversion of respectable landholders into tenants under money-lenders and traders who by training and inclination have no interest at all in the land which they have got all too cheap and this partly accounts for the gradual depression of agriculture in Malabar.

6. *Subsidiary industry.*—There is no subsidiary industry worth naming taken up by the cultivator. Even gardening, which some years ago gave the cultivator and his family plenty to eat, is on the wane. This is due to the tendency of the people to attend to only those things which will bring them more money that may enable them to educate their children in costly English schools or to buy clothes and other necessities which will keep them up above the level of commonness, and in this mad rush, the question of eating is nearly forgotten. Dairy farming, though not in any organized form, is not unknown to Malabar. Mainly owing to want of pasture, this has gone down to a deplorable extent. ●

Making mats and baskets, carpentry, metal work, spinning, weaving and fibre work in general are all suitable home industries which the cultivators in my district could take up.

As to improving the condition of the cultivator, I am inclined to ask why not any sincere attempt succeed? Much depends on village organizations under less selfish men who take a live interest in the villagers and could help them with information and advice. No use at all of the foolish rich man or the foolish officer! Co-operative societies could help. But their working should be pervaded by a spirit which is not very common in these days. The question then is—who will supply the spirit? The Government should undertake it. If this is solved, most of the village problems are solved. Co-operative societies could also provide the cultivator with the necessary finance.

II.—Indigenous Banking.

To make banking really useful to the innumerable cultivators of the district, co-operative banks with larger capitals should be organized in all villages or at least in certain centres. Cultivators are everywhere indebted to money-lenders to an extent which is impossible to find out unless a regular survey of it is done. Unless banks are prepared to lend money (sums ranging from Rs. 100 to Rs. 5,000) to cultivators on the security of their land on moderate rates for long terms, no perceptible relief could be felt, especially by the middle class cultivator. Along with it, methods should also be devised for the regular collection of interest from the cultivator and for enabling him to slowly redeem his land from debt. This is a big problem even for the Government,

There is also another point to be considered. If money is borrowed for permanent improvement of a land and invested on it, it happens that no return can be expected from the land for five or six years. [Please think of cocoanut gardens and pepper gardens.] In such instances the cultivator may not find it possible even to pay the interest during the first few years.

These statements have been made with the landholder and the cultivator in the mind. It is found that any attempt to improve their condition reaches them only very slowly or does not reach them at all. Unless any propaganda spreads itself and gets a strong hold on the people at large, its benefits cannot stand for any respectable length of time. Even in this new endeavour this may be thought of. The evil or the disease which has affected the cultivator is deep-seated and very sympathetic doctors or nurses only can help him. I wish the Government every success in this, their new endeavour.

Written evidence of M.R.Ey. P. S. GOPALASWAMI AYYANGAR
Avargal, Municipal Councillor, Udamalpet.

I.—Agricultural credit and credit facilities for small industries.

1. (a) Agriculturists obtain finance by borrowing money from Nattukottai Chettis' banks, other banks, from professional money-lenders and from landlords.

(b) By getting loans from Government under the Agriculturists Loans Act and under special well loan rules and also from Nattukottai Chettis.

(c) Do. do.

The rates of interest charged are from 12 to 24 per cent per annum.

The period for which loans are taken ranges from six months to one year.

The nature of the security given is by executing promissory notes, mortgage deeds and by depositing goods, etc.

The Government plays a part in agricultural finance by lending money to agriculturists for deepening wells and for permanent improvements under special well loan rules and for the purchase of cattle, feeder, etc., under the Agriculturists Loans Act.

There is no Imperial Bank in Udamalpet taluk.

There is one joint stock company, viz., Udamalpet Nidhi, Limited, which grants loans on the mortgage of jewels and on deposits.

There are co-operative unlimited credit societies in some villages of this taluk which grant loans to agriculturists.

There is one co-operative urban bank, limited, in *Kasba* Udamalpet which grants loans to mercantile business and to agriculturists.

Bankers, professional money-lenders, merchants and dealers do assist with finance very few agriculturists only and not all.

An estimate of Rs. 50 lakhs will be required for the above purposes to this taluk.

There is a great delay in getting loans from Government. Nattukottai Chettis and professional money-lenders demand a high rate of interest.

I suggest that by opening a bank by Government on sound basis and by lending out money at cheap interest and with safeguards, there is scope for much improvement if business is transacted on regular lines.

There is co-ordination among the various credit agencies not for the betterment of the debtors but for the detriment of them.

2. Crops are taken to the commission agents for sale by village brokers and other petty dealers. Very few ryots do take them to the local markets at Udamalpet, Pollachi, Tiruppur and other places.

There is one co-operative trading society at Udamalpet, a branch of Tiruppur trading society, recently started which does its business successfully in marketing the produce from the ryots.

When the goods are brought down to the godowns, 70 to 80 per cent of the market value of the goods is being advanced. The co-operative trading society, merchants and dealers take the part of disposing of goods, whereas the bankers do not deal in selling the goods.

There are no such banks to honour hundis and to exchange bills. Hundis are discounted at Coimbatore, Pollachi and other places.

Hundis are honoured by Bombay merchants who come here during the jaggery season.

Negotiable instruments, such as promissory notes, bills of exchange, cheques and hundis do play a great part in the internal trade of the province.

There are two kinds of hundis, viz., *shajogi* and *jokmi*. Here *shajogi* is in use; *jokmi* in Bombay. *Shajogi* is very common here.

3. (a) Wet lands under tank irrigation are valued at Rs. 500 to Rs. 2,000 per acre.

Under channel irrigation, the price ranges from Rs. 1,000 to Rs. 3,000 per acre.

In black cotton soil the price ranges from Rs. 500 to Rs. 1,000 per acre.

In red soil land it ranges from Rs. 100 to Rs. 500 per acre.

(b) Do. do.

(c) Considerably more than above.

4. There are no land mortgage banks in this taluk. Other banks conduct the lending of money by mortgaging the lands for a long-term credit at a higher rate of interest. Bankers raise capital from share-holders.

In my opinion, if Government land mortgage banks are opened here, it will work successfully to the advantage of the ryots.

5. An estimate of Rs. 50 lakhs will be required for this taluk.

People generally incur debts for all purposes enumerated from (a) to (h).

The debt is largely due to Nattukottai Chettis, professional money-lenders and landlords.

The rates of interest are charged from 12 to 30 per cent per annum. The debtors are charged compound interest every ten months.

There are a large number of people who are efficient farmers and who are turned into tenants for a period through the process of the enforcement of old debts. If this process continues, it will take away from the actual cultivator the incentive to produce more and in an efficient and better manner.

6. There are small industries, such as, rice mills and cotton gins here. There are two mills which have cotton-ginning and rice-milling.

By lending money at cheap interest, hand-spinning, weaving, etc., industries may be encouraged.

Agriculturists derive no good from bankers, etc., who are selfish and who want to enrich themselves at the sacrifice of the poor ryots.

7. The co-operative banks generally advance loans to villagers through their affiliated societies, whereas the Imperial Bank does not do so.

Co-operative societies do not advance loans to farmers for a longer period. They do advance only for a shorter period which cannot improve their status. I suggest that co-operative societies may be asked to advance loans to farmers for a longer period so that they may utilize this amount and thus be freed of their difficulties.

II.—Indigenous Banking.

1. Indigenous banks do advance money to agriculturists to the said purposes and also to other purposes, provided the agriculturists are solvent and are regular in paying interest at regular intervals and provided they are prompt in payment.

2. Indigenous bankers do assist the agriculturists, traders, etc., with finance with half of what their property is worth.

3. *Shajogi* hundi is used here. It is very common. *Jokmi* is used in Bombay.

Other credit instruments used by the indigenous bankers are promissory notes, bonds, mortgage deeds with possession or without possession of properties, etc.

5. Indigenous bankers grant loans on promissory notes, bonds and mortgage deeds with or without possession, etc.

Co-operative banks do give loans on personal security and on the security of deposits.

Joint stock banks do give loans on personal security, mortgage of jewels and on deposits also.

Nattukottai Chettis grant loans on promissory notes, bonds and mortgage deeds.

Bankers receive fixed deposits and pay interest from 5 to 6 per cent per annum.

6. The agriculturists have to pay interest at 12 to 36 per cent per annum if paid in money and if paid in kind, one *vallam* measuring Rs. 320 weight to every rupee. If the Government comes forward by establishing a bank in each taluk for the purpose of lending money at a cheaper rate of interest to farmers, no doubt, there will be improvements to farmers. No doubt, if the rate of interest is reduced, the agricultural community will have a great chance of improvement.

7. No doubt, the bankers are protected in law.

9. After making allowance for legal expenses, etc., the net return that the bankers will get will be from 12 to 15 per cent per annum.

10. The bankers oblige the ryots at some times and at other times they refuse. They demand a higher rate of interest, especially during the kist collection period, viz., January, February and March. They demand interest from 26 to 36 per cent per annum when the money market is very tight.

11. I suggest the establishment of a local bank with local directorate in this taluk to enable the agriculturists to get funds from them to meet their necessary expenses during cultivation time at a cheaper rate of interest.

12. I do not think the indigenous banks have surplus money to spare.

III.—Investment habit and attraction of capital.

1. The public are provided with facilities for the investment of their savings, such as, Postal Savings Bank, the Imperial Bank and the co-operative bank.

The banking resources in the provinces are, (1) fixed deposits, (2) current deposits and (3) recurring deposits.

The facilities allowed in the above institutions may be encouraged by asking them to give a higher rate of interest as allowed in other banks to the investors. Some invest their capital in silver and gold in the shape of jewels.

2. Postal Cash Certificates are not popular in this taluk. Cash Certificates may be made very popular only when it can be cashed at any time without any restriction. The rate of interest allowed on Cash Certificates may be raised.

As a very small percentage of interest is paid in the savings banks, very few invest their money therein. A very few officials do resort to such investments.

3. The ryots purchase lands, cattle, etc., with their surplus money. The farmers lend money to agriculturists at 12 to 24 per cent per annum.

4. Only the merchants and the high officials do make use of the cheques. The cheques are made popular by the abolition of the stamp duty on it.

If cheques are drawn in vernacular, it will be of great use to the non-English knowing population. If cheques are promoted to a greater extent, people have to pay a discount in cashing the same.

5. I support the view that the banking and investment habit in India is of very slow growth. The people cannot get money very easily as the rules of the Imperial Bank and other banks are very strict in granting loans. People like agriculturists cannot wait a very long time to get money for their urgent needs and so they are obliged to go to the individual money-lenders. This is the cause of the slow growth in the banking system.

**Written evidence of M.R. Ry. K. SRINIVASAN Avargal,
Secretary, the Kollegal Sree Venkateswara Nidhi,
Limited, Kollegal.**

I.—Agricultural credit and credit facilities for small industries.

1. The ryots obtain money from local money-lenders. The interest is fixed sometimes in grains such as 3 candies per hundred per year. This system is ruinous to the agriculturist. These loans are advanced by the local money-lenders by getting a hypothecation deed executed by the ryots.

After the starting of the local joint stock banking company the ryots are under an advantage as the company grants loans and receives them in easy instalments. The ryots were at a disadvantage formerly as they had to execute hypothecation deeds for a small sum of even Rs. 50. The method adopted by the local money-lender is that the ryot is compelled to mortgage all his immovable properties for the petty sum and when he needs money at a subsequent occasion he is compelled to go to the same person and is thus prevented from getting money elsewhere at a cheaper rate of interest. Thus the ryot is ruined.

2. The chief product is raw silk. This is exported to South India. Remittances are usually by insured post. The opening of a local branch of the Imperial Bank of India is essential as this will facilitate the remittances. Kollegal is an important silk trading centre. Bombay hundis are sometimes received and it is found very difficult to cash them here for the absence of a branch of the Imperial Bank of India.

3. The value of dry land in the Kollegal taluk is Rs. 150 per acre on an average, the average wet land being sold at Rs. 500 an acre. The value of the lands have been reduced due to failure of monsoons for the last five years successively.

4. There are no agricultural banks. If such a one is started and a portion of the capital subscribed for by the Government, the bank will be popular as the public will have greater confidence and local deposits will be forthcoming.

5. The agricultural classes are mostly indebted to local money-lenders. Money is lent on obtaining a hypothecation deed executed by the party even for small sums of Rs. 50. Debts were incurred mostly for repayment of previous loans and for marriage expenses. The debts are due in most cases to local money-lenders and in a few cases to co-operative credit societies.

6. *Silk rearing.*—Government help in teaching improved methods is essential. Money must be advanced at low rates of interest for purchasing machines required to produce silk under improved methods.

6. (a) There are many local handloom weavers. Improvement is essential. A weaving factory has to be opened and employment for handloom weavers provided.

7. In this district the Imperial Bank of India is not helpful in any way to joint stock banks. The Government are not justified in assessing joint stock companies to an income-tax of 1½ annas in the rupee. These companies should be treated like private individuals and taxed on the basis of their net income.

II.—Indigenous Banking.

In the Kollegal taluk there are many private bankers. They advance money to ryots at 12 per cent per annum on getting a hypothecation deed executed for sums exceeding Rs. 500. Sums below that amount are charged 15 per cent interest per annum.

The private bankers advance money to local merchants on getting promissory notes executed. Interest varies from 9 per cent to 24 per cent per annum. Short-period loans are charged at 24 per cent per annum interest, while long-standing loans are granted at 9 per cent or 10½ per cent per annum, according to circumstances.

The high rate of interest charged by the local money-lenders may be brought down by the Government by starting land mortgage banks, which will greatly benefit the agricultural classes.

9. The indigenous bankers get at the rate of 12 per cent per annum.

10. The local money lenders are able to meet the demands.

12. Yes.

III.—Investment habit and attraction of capital.

The Sub-Treasury must have a branch of the savings bank account open to the public as it is done in the Mysore State.

The opening of the branch of the Imperial Bank of India has not been useful in any way to the people. It will be useful to the ryot only when loans are given by the bank on obtaining hypothecation deeds executed by the ryots.

General.

The Government should amend the Indian Companies Act VII of 13 so as to make it compulsory on the part of joint stock banking companies to invest their reserve fund in the Imperial Bank of India. The Imperial Bank of India must be instructed to grant cash credits to joint stock companies in proportion to the paid-up share capital and Reserve Fund. The relationship between the Imperial Bank and the joint stock bank shall be similar to the relation between the district urban bank and the co-operative societies. The companies must be asked to pay at least 12½ per cent of their net profits to the Imperial Bank to be invested as fixed deposit.

With this arrangement, the Imperial Bank may be able to grant cash credits to joint stock companies which will in their turn lend money at a lower rate according to the discretion of their directorate to the public and thus the Imperial Bank or reserve bank or some other central banking organization started by the Government may be made really useful to the public.

**Written evidence of M.Ry. B. RAMA REDDI Avargal,
Landlord, Veldurthi, Dhone Taluk,
Kurnool District.**

I.—Agricultural credit and credit facilities for small industries.

1. For small industries

(a) By obtaining from local money-lenders on interest at 12 per cent per annum.

(b) By obtaining from local money-lenders and also from Government under the Agriculturists Loans Act. But in the latter case the existing rules are not favourable to all the ryots as the loans are sanctioned only to persons who own lands and *pattas* in their own names. These rules have to be modified so as to bring these loans within the reach of one and all of the ryots who own lands and whose right of ownership is not disputed, in whosoever name the *pattas* may stand.

(c) Same as item (a) above.

For poor people who borrow money at a high rate of interest at least a sum of Rs. 30,000 is required for this firka which contains 14 main villages.

2. There is no such marketing system in the villages of this firka. But the ryots sell all kinds of produce, such as, food-grains, pulses, tobacco, chillies, groundnut and cotton, etc., to local merchants.

3. It is very rare in these parts that lands are sold with crops standing on them.

(a) } Money realized by sale of lands under private negotiation will
(b) } generally be more than what is realized by Government auction for
(c) } non-payment of revenue and by sale under court decrees.

4. (a) To simplify reference of ownership all lands under joint enjoyment should be subdivided according to the enjoyment of each and single *pattas* granted.

5. Money borrowed on the mortgage of lands as security is generally less than what is borrowed on promissory notes and other unregistered bonds. These debts are largely due to professional money-lenders. The rate of interest charged is in most cases 12 per cent per annum. The method of calculation of interest is in many cases by compound interest. Owing to this high rate of interest the cultivator is not able to maintain his family and also to meet the demands of his creditor. Hence his means of livelihood are reduced year after year till at last he becomes a tenant.

6. In Veldurthi firka there are at present only five ginning and shell-ing factories.

**Written evidence of M.R.Ry. Rao Bahadur A. VEDACHAGAM
 AYYAR Avargal, Retired Deputy Collector,
 33, Nammalwar Street, Georgetown, Madras.**

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturist gets finance for expenses during cultivation from local money-lenders at exorbitant rates of interest in kind or in cash ranging from 15 to 24 per cent. Sometimes retail dealers in foodstuff and necessities of life advance money for such purposes on repayment of loan in kind with a proviso to sell all his produce only to him. However disadvantageous such an arrangement may be to the borrowers, the people stick up to it in preference to joining a co-operative society owing to certain inherent defects in the working of the society and the limited character of its work with ill-equipped management and business knowledge. Bigger landlords get accommodation from commercial banks and also from indigenous bankers such as Chettis and Marwaris. The two latter do not give very many facilities to the borrowers in regard to the rate of interest.

Capital and permanent improvements do not get necessary and requisite finance from local money-lenders except on a small scale nor do the company banks finance such undertaking. Such finance should be made available by land mortgage banks which have not yet come into working order in the co-operative movement. Private companies for such a purpose are non-existent.

Special needs such as failure of crop and loans for land revenue are at present given by the local money-lenders for being returned at the next crop at very high rates of interest. Sometimes retail dealers as well as Chettis and Marwaris give such accommodation also at unconscionable rates of interest. All loans in rural areas other than by co-operative organizations are obtained at interest rates varying from 15 to 24 per cent on pro-notes with surety or sureties and from 9 to 15 per cent when given on the mortgage of immovable property. The period for repayment of loan does not exceed one year or the next season except in the case of mortgage loans which become a standing debt on the property, the interest being payable yearly. The most unconscionable condition imposed in a number of cases is to compel the borrower to sell his crop to the lender at a settled price or at the ruling price and to curtail his liberty to sell his produce at highly favourable rates.

Agricultural finance by Government is very inappreciable. It is administered in a hopelessly involved way so that few agriculturists resort to it. The working of the Land Improvement Loans Act and the Agriculturists Loans Act has not been and could not be satisfactory for the reason that the lender could not be in personal touch with the borrower owing to a large number of nervous or unsympathetic employees through whose investigation alone such loans could be disbursed.

The Imperial Bank of India has practically nothing to do with agricultural finance except through its intermediaries, money-lenders and traders who get connected with it. The constitution of the Imperial Bank is such that it could not at present be expected to deal with agricultural finance except through financially responsible agents. It can only deal with organizations like the central financing co-operative banks or company banks. It can be expected to do full justice to agricultural finance by allowing credit facilities in a much larger measure and for a much longer period than that allowed for commercial banks. It can allow credit to co-operative financing banks for one year and up to such amount as the credit power of such institutions warrant on the security of village society pro-notes of approved and efficiently worked organizations.

The joint stock bank plays very little part in agricultural finance except in marketing of crops and even this it does through approved middlemen such as traders and contractors.

The indigenous banks and bankers are very few and are no better than the local money-lenders in regard to agricultural finance. They generally finance professional traders and also agriculturists who carry on trade as

a subsidiary profession. There are practically no indigenous banks with defined constitution in rural areas. The bankers are also very few and they are confined to urban and semi-urban areas.

Professional money-lenders, merchants and dealers do finance agricultural industry to a very large extent but the help so rendered is always on disadvantageous terms to the borrowers.

Ordinary unirrigated dry land requires an average expenditure of Rs. 7 to Rs. 10 per acre, a wet land Rs. 15 to Rs. 20 per acre and a garden land Rs. 20 to Rs. 30 per acre.

The present system of agricultural finance by private money-lenders, merchants and dealers cannot be improved upon by connecting them with the Imperial Bank or company banks under suitable safeguards.

The only safe solution of the problem seems to be to organize the rural co-operative organizations to take up the entire responsibility in a carefully regulated manner. In fact the co-operative movement was intended to serve this purpose and any amount of assistance in this direction by the State or by any banking arrangement devised by the State under suitable and business safeguards is an urgent necessity for the betterment of the rural population employed in agriculture and for the betterment of the country and the nation as a whole. I may note below an extract from an article on 'State Aid and Agriculture in America':—

"Agriculture is not merely a way of making money by raising crops; it is not merely an industry or business; it is essentially a public function or service performed by private individuals for the care and use of the land in the national interest; and farmers in the course of their pursuit for a living are the custodians of the basis of national life. Agriculture is therefore affected with a clear and unquestionable public interest and its status is a matter calling for deliberate and far sighted national policies, not only to conserve the natural and human resources involved in it, but to provide for the national security, promote a well rounded prosperity and secure social and political stability."

A Bill in America is to be or has been legislated for the creation of half a billion dollar revolving fund to be advanced to co-operative associations of farmers to enable them to market their crops in an orderly fashion and to make advances to farmers' associations to enable them to pay the farmers at harvest time while holding the grain from the market for more favourable prices thus relieving temporary depressions.

The above is quoted to show that the State directly or through the Imperial Bank should afford credit facilities up to a safe limit to central co-operative banks and these should work up to the ideal of complete agricultural finance for the area of their operations.

It is impossible to effect co-ordination with money-lenders, merchants and traders but co-ordination seems possible between the State bank or the Imperial Bank and co-operative rural organizations through central banks or apex bank.

2. Commercial trade relating to products exportable to foreign countries is carried on by dealers entering into forward contract with exporting firms who get advances from company banks or the exporting firms or from local money-lenders, Chettis, and Marwaris. These direct dealers advance moneys to the producers direct or through smaller dealers even before the crop is cultivated and to smaller dealers who collect the produce on payment. The rate of interest charged is 18 to 24 per cent and the produce has to be handed over at a fixed price determined at the time of contract. This is invariably the case when advances are given to the cultivators. Such dealers gain whenever they get contractors on fixed rate system and they lose where they deal with smaller dealers or producers without advances under the fixed rate system. They have to supply the exporting firm the agreed quantity on the specified date or else they will have to make good the loss. Hence these dealers buy up the quantity required at a high rate even though it may involve loss because the exporting firm will deal with them so as to cause heavy loss.

In the case of produce useful mainly for consumption in the country, merchants and dealers also advance money to the cultivators before or in the process of cultivation with a condition to hand over the produce at a

fixed rate or at the prevailing rate at the time of handing over the produce. The borrower has no option to sell elsewhere. This is equally a deleterious arrangement and this involves a loss of 18 to 25 per cent on the sum borrowed.

Where, however, advances are not given, wholesale merchants get supply from numerous local small dealers who gather the harvested crop by purchasing from the producers when pressure in the shape of Government kist or by creditors is felt by the producers and the district wholesalers distribute the produce outside at a profit of 10 to 12 per cent. In fact, produce worth Rs. 100 in the hands of the producer is sold for Rs. 130 to Rs. 140 by the retail seller at the end of the distributive arrangement.

The producers sell their produce individually to small dealers when pressure for money is felt. There is no organized attempt to stock the produce and sell them in well regulated markets and at the proper time to secure as high a price as possible. Co-operative effort in this direction has not yet developed in a suitable manner and will be crowned with success only when rural organizations finance the agricultural industry as a whole and where such work is carried on by efficient well paid management and its staff. The pooling of produce for internal trade and consumption requires careful and businesslike management and must be secured by co-operative effort only at a later stage and wherever the personnel of management is efficient. Co-operative trade of produce consumed in the country can be successfully carried out only when co-operative distribution is extended everywhere and where such agency is able to purchase from produce organizations. This seems to be a long way off and it does not seem to be practical politics for another twenty years to dispense with traders, merchants and dealers by co-operative effort. But rural co-operative organizations can arrange for holding up produce and dictating reasonable terms to the dealers.

4. There are very few impediments in ryotwari or zamindari tracts in mortgaging land and agricultural holdings where the right of occupancy has been conceded by statute on contractual relationship. There are no agricultural or mortgage banks for long-term credit in the province except a few experimental land mortgage banks started by the co-operative movement. Such banks are a necessity for productive investment in the shape of land improvement or advanced method of cultivation. If, as is intended by the department, the banks are confined to redemption of prior debts, barring a few cases of regular payments in well conducted organizations by competent men, the working of such banks for debt redemption will be a mill stone round the neck of the co-operative movement. But long-term credit by such banks for productive purposes and improved mode of cultivation is certain to be more successful. It is indeed more urgent. These co-operative land mortgage banks have to raise capital by the issue of debentures on the security of floating mortgages of productive immovable property up to 40 to 50 per cent of the value of the property pledged backed up by the paid-up share capital in each institution. These banks have not been successful to raise local money and therefore a central land mortgage bank for the Presidency has to be floated at Madras to finance primary land mortgage banks. The entire arrangement depends upon the dispensing of loans to borrowers with sufficient repaying power and character and not with reference to the value of the property pledged. The essence of proper management of such banks depends upon the care exercised in fixing the repaying power of the borrowers, making due allowances for fluctuations of seasons and of trade conditions. Such banks should derive their working capital purely from debentures which are negotiable or saleable and not from deposits and such debentures had better be issued by central institutions organized for the purpose.

Government guarantee for principal or interest does not seem to be required except for some time to come, say ten years, till the depositing public gain confidence in such banks. Such central banks ought to raise debentures at 5 to 6 per cent and lend to mortgage primary banks at 7 per cent and these in turn should lend to borrowers at 8 per cent. The primary banks may however charge a fee for running the institution, for valuation, etc., in the infant stages. Where the transactions become large, such additional charges should disappear.

I do not think that any additional facilities need be given for the recovery of dues or for the foreclosure of mortgages as is wanted by central co-operative banks which deal with deposit banking. The land mortgage banks can afford to work leisurely and have not to meet the depositors' obligations on fixed dates.

Besides crop and seasonable loan, short-term credit for a longer period than one year and shorter than what a land mortgage bank allows has to be disbursed to secure small outlay on the instruments employed in the industry, cattle, farm house, etc. These require loans repayable in two to ten years. These may be distributed by central banks by securing the required working capital out of deposits.

General.

The agricultural industry requires credit to an unlimited extent if, as is everybody's desire, the industry should be carried on so as to secure intensive cultivation and to procure the maximum production by improved and scientific methods. At present, the agriculturists, rich or poor, carry on the industry indifferently with reference to the resources of credit available to them. Such facilities are very much limited by the financing agencies available and by the fact that financing agencies with limited resources charge heavy interest owing to inadequate supply of money and to the risk involved in financing the industry to poor people, labourers and small holders who have to face adverse seasons (drought), flood damages, cattle disease, etc. The agriculturist has to secure credit facilities throughout the year, for ploughing, manuring, seed, cultivation operations, harvesting and for effecting profitable sale of produce. In fact, the agriculturist must be made to carry on the industry by a regular and intimate touch with a banking institution which is expected to receive all the incomes of the agriculturist and to give him whatever credit he wants. The agriculturist must get into a banking habit by which he will send his incomes to the bank and draw from it whenever he wants money and whatever he desires to his deserved capacity to get credit or to the deserved credit which the operation in which it is to be used can bear. On the other hand, the bank should be so constituted as to make provision for meeting the failure of crop in part or full by adverse seasons, hailstorm, etc. In commercial banking, credit always follows goods or products or expectation of goods or products and the risk involved is only that brought about by the character of the borrowers or by the insolvent condition of the borrowers who are unable to meet losses arising from trade fluctuations. But in the case of agricultural industry, in addition to the risks specified, there is the additional trouble arising from impediments to adequate production from causes beyond the control of the borrowers. In agricultural industry, credit should not be made dependent on mere property, as such a course will involve a shrinkage in the distribution of credit owing to difficulties in ascertaining the right of borrowers to the property and their right to raise credit thereon, in finding out the valuation of land, in tracing the previous charges on the land and in various other ways.

Hence it will be seen that a banking institution which caters for the benefit of the agricultural industry to the legitimate extent must be strong enough to meet all demands and without any delay whatsoever and to provide agencies for collection when the income is received and to take disciplinary measures without delay in refractory cases and also to make provision for extension of time for repayment from causes beyond the control of the borrowers. Such a banking institution should be in direct and continuous touch with its clientele and it should dispense credit only to those who have all their dealings with it in so far as agricultural production and distribution are concerned. Such a bank ought to be efficiently managed by competent directors who should exercise discipline in recovery and liberality in financing to the adequate extent.

Personal touch is a very valuable factor in such institutions. Hence the bank should have a limited area of operations and should have efficient and well-trained men to guide its affairs.

A village bank with such qualifications has not been brought into existence for the benefit of the agriculturist under the Companies Act or otherwise. The co-operative village societies were designed for such a purpose aided

in financing by the central banks or the open bank. The co-operative village organization has not fulfilled its purpose because of various inherent defects in their working.

(1) The village society has to be run by borrowers alone and has not yet attracted competent men in all cases.

(2) Honorary service available is not efficient or continuous.

(3) Disciplinary measures are not regularly resorted to because of the directors being borrowers themselves. The defects in the working of village co-operative organizations can easily be rectified. Co-operative financing agencies—the central banks and the village societies—should change their ideal of working. They should not be mere distributors of credit to the extent of money available and when available they should organize themselves as to make credit facilities available to every agriculturist for productive enterprise however small it may be to the deserved extent and at the precise time when wanted. Credit should be available for all phases of productive agricultural industry from ploughing right up to sale of produce. Better business management can easily be secured by employing competent men to run a village society. A village with 1,000 acres of wet land and 1,000 acres of dry land requires credit facilities up to Rs. 20,000 and, surely, if this society is to be run on efficient lines, a business man on Rs. 250 per annum can be engaged. If along with this, marketing of produce is tacked on, the village can deal credit to the extent of Rs. 50,000. The central financing agency can employ a supervisor on Rs. 600 per annum for not more than ten villages. This is the ideal method of financing agricultural industry. I would even recommend payment of remuneration to the directors of village banks proportioned to the transactions.

The facilities available under the Co-operative Societies Act given in the form of concessions by Government are sufficient at present but extension may be made as regards the recovery of dues by extended jurisdiction in regard to money suits up to Rs. 250. Panchayat courts, however, should be made to function more efficiently and by competent men. These village co-operative banks of the ideal type described by me seem to be the only practical solution for the financing of agriculture and the central banks should be given enlarged credit facilities by the Imperial Bank on approved securities and on the security of the notes of village societies either at a flat rate of interest or at varying rates as they do in regard to commercial banks.

It may be a long way off before a village co-operative bank will function both for production and for marketing in full but it has to be worked up with the help by the Imperial Bank to the financing banks.

The existing co-operative machinery in financing can be rendered suitable to take up the work of financing agricultural production and marketing and such organising is more easy than expecting banks registered under the Companies Act to take up this work. The joint stock banks depend for their existence on deposits which are available only in commercial centres. They confine themselves purely to inland trade and marketing, because of the rigidity of their finance for short-term credit and they could not take up agricultural industry except through some middleman or another who is expected to regulate the work as responsible agents. Direct undertaking by them is attended with possibilities of loss and heavy expenditure. Such banks could not get started in rural or semi-urban areas, as they will not succeed in getting deposits. Even if started, being small institutions, they could not afford to get adequate credit from the Imperial Bank or big banking company concerns.

Co-operative concerns should be humanistic in their working and should command the confidence of all their clients and should never deviate from business' working. Company concerns will only have to take up such work as could not be expected to be solved by co-operative concerns in each stage of the growth of co-operative societies. The two agencies should continue to work, one in complement of the other and both should get financial help from the Imperial Bank or from Government under suitable and liberal conditions laid down as regards business methods and security.

Written evidence of M.R.Ry. Watrap S. SUBRAMANIA AYYAR
 Avargal, B.A., B.L., Advocate, Sanskrit College Street,
 Mylapore.

I thank you for the opportunity you have given me to express my views on this most important subject of 'Banking' more especially in relation to agricultural and industrial credit. I have for a long time been exercising my mind over the question 'What means can be devised to secure financial accommodation to the large agricultural population of the province on easy terms?'.

Moneyed men's difficulty in finding out good investments.—On the one hand, we find a large number of moneyed men and institutions in cities, who are at a loss to know where to invest their moneys and how to get a fair return by way of interest on such investments. Nattukottai Chetti firms which used to take in large deposits at what is called 'the *nadapu* rate of interest' which generally worked out to 9 per cent per annum have latterly been unwilling to accept deposits, at any rate it is difficult to get firms of established reputation and credit to take deposits in the usual course. The banks in Madras have been steadily lowering the rates of interest at which they are prepared to accept deposits from the public. Loans on first mortgages of immovable properties situate in Madras have proved to be a disappointing source of investment, as in most cases the lender has to take the immovable properties himself as no purchasers are available to take them in auction. Further, owing to the fall in the value of these properties after the war, persons who lent on this kind of security and even institutions like the Mylapore Hindu Permanent Fund which is well known for its cautious valuation of houses have found to their cost that the security has failed to satisfy the loan in full. Insurance companies which always have large funds on their hands and rich temples and mutts are also finding the same difficulties with respect to the investment of their large surpluses.

Difficulty of finding finance in rural areas.—While such is the difficulty experienced in finding a proper investment for moneys and large capital is available on fairly easy terms, we find, on the other hand, that the large rural population is unable to get loans even for necessary purposes such as the purchase of cattle or manure or agricultural implements except on very hard and usurious terms. No agriculturist, not even the most prompt and regular, can get money at anything less than 15 per cent per annum, while loans at 3 per cent per mensem are very common in villages where the only financier is a Nattukottai Chetti or sowcar. Twelve per cent per annum is considered the fairest rate or *dharmavaddi* on mortgages of lands and houses. The solution of the problem, therefore, seems to me to depend on finding out some means of diverting the large sums of money in cities crying out for investment towards the relief of the rural indebtedness.

How to divert money from towns and cities to rural areas.—The moneyed men of the cities are first of all very particular about punctual and regular payments of interest to them on their moneys, for that is what they have to depend on, for the maintenance of themselves and their families. Secondly, they want to have no anxieties or doubts about the safe return to them of their deposits at the end of the stipulated period. Provided that these two matters are guaranteed, it matters least to them who has the use of these moneys.

(i) *The co-operative movement.*—The co-operative movement has to a small extent attempted to solve this problem. The Madras Central Urban Bank takes in deposits from moneyed men in Madras and the District Co-operative Central Banks take in deposits available in the important district centres. Both these lend their moneys only to primary rural co-operative societies at fairly reasonable rates which in their turn lend the moneys borrowed to their own members. The depositor feels assured of the safety

of his investments in the central banks which also pay him interest regularly. The agriculturist member of the primary rural society at the other end gets the benefit of these deposits, at a fairly easy rate of interest. But, unfortunately, the co-operative movement has so far touched only the fringe of rural indebtedness. The activities of the primary society are confined to its few members and the bulk of the agricultural population has been left where it was. It has also to be remembered that the average agriculturist is not sufficiently educated to appreciate the benefits of the co-operative movement and it must also be confessed that better attempts on a more extensive scale can be carried out to enlighten him on this subject. Another difficulty is that the villager has not been accustomed or trained to punctuality in payment of interest or return of loans and the enforcement of penal clauses and default rates of interest appear to him always unjust. He even goes the length of feeling that the provision in the first instance of credit on easy terms is merely a ruse to benefit by the default rate of interest. Thirdly, the difficulty of finding among villagers a sufficient number of broad-minded, enlightened, unselfish and honest honorary workers is a matter which stands very seriously in the way of the establishment of a large number of rural credit societies. Recent happenings do not give a good augury. Prosecution of presidents of rural credit societies for misappropriation of the societies' funds have not been uncommon. It is also a matter too well known that all the funds of the society are in several cases shared as loans by the office-bearers of the society among themselves and their relations. The Co-operative Department has therefore in recent years very naturally turned its attention more to the improvement of the existing societies than towards the starting of new societies.

Thus, the state of things is not very satisfactory. Whatever, new modes may be conceived and tried for rendering the capital of cities available to the villages, the usefulness of the co-operative movement as an important channel for the flow of money from the cities to the village should not be lost sight of. The question, therefore, arises, 'How are we to make the co-operative societies more efficient and how are we to extend the area of their usefulness?'. Two ideas suggest themselves to me. The first is that the advantages of the co-operative movement should be sufficiently well impressed on the mind of the agriculturist. A good deal of propaganda should be done. Every agriculturist must be told that the co-operative society is his friend and wishes well of him while the sowcar is after his own benefit even at the cost of the total ruin of the borrower. Lectures at the village *chavadi* by co-operative officials and honorary workers of the co-operative movement will be productive of much good. The agriculturist must be told and reminded in season and out of season that, if he be in need of money, he must borrow only from the village co-operative society and not from sowcars. The difference in the rates of interest should be made known to him. Posters in vernacular exhorting villagers to join the village co-operative society and to get new societies started where none exist at present should be printed and affixed at prominent places in the village, such as, the shandy, *chavadi*, school, hospital and post office. Such exhortations printed on the back of house-tax receipts and kist receipts will be effective means of keeping the co-operative idea ever present in the mind of the villager. Revenue Officers who camp in villages for *jama-bandis* must make it part of their duty to carry the message of co-operation to the villagers that assemble before them. As things obtain at present, a knowledge of the advantages of co-operation has to filter through of its own accord. No attempt is made to carry the information to every villager and arrest his attention and get it to concentrate upon the benefits of co-operation. If that is done, there will be a large demand for more societies and existing societies will get more members. There will be a greater demand from villages for moneys and the flow of capital towards rural relief will be more vigorous and steady and in larger volumes. My second idea is to make it obligatory by legislation, if necessary, on every villager having to borrow to become a member of the village co-operative society and take a loan therefrom before he applies for any loan to the sowcar. I am prepared to go even the length of suggesting that the villager who borrows and the sowcar who lends him when there is a co-operative credit society from which the borrowing could have been made may be made liable to a prosecution which may result in a fine. It goes without saying that before such a provision can be enacted or enforced, every village must be provided with its co-operative society. I would also suggest that

co-operative societies should be enabled to lend on mortgage of lands and pledge of crops. At present, they lend only on the personal security of the member borrowing and of two sureties. Due to the usual conservatism and caution proverbially found in villages, villagers of credit are unwilling to stand sureties for a man in need though he may be possessed of sufficient property. No doubt, personal security of sureties renders recovery easy but it certainly makes borrowing difficult. More people will be enabled to get relief from co-operative societies if they can get loans on the security of their own properties than if they are put to the necessity of finding two other persons to stand sureties. The amount usually lent to a member by these village societies is too small and insufficient to enable the villager to avoid the sowcar entirely. And if he has anyhow to go to the sowcar, why not go to him for the whole and why have too many creditors is what prevails in the minds of most of the villagers. Once sufficient security in the shape of properties or crops is given, the needs of the applicant should be fully satisfied. Recovery also should be by instalments spread over a fairly long period. Unless these facilities are afforded to the villagers, they cannot find the co-operative society a real and effective source of relief to their indebtedness. My own view is that a much bolder policy should be pursued than what obtains at present if the co-operative movement is to function as a real and effective channel carrying relief to rural indebtedness.

(ii) *Land mortgage banks.*—The land mortgage banks recently started seem to have been intended to carry out some of the above ideas but, as they have only just been started, it is too early to forecast about their success. But, here again, the policy to be pursued at least in the initial stages is not one of caution and reserve but one of boldness.

(iii) *Agency of Government.*—The most effective method which, in my opinion, will render available to the agriculturists and to the rural population in general, the moneys which can easily be found at easy rates from the cities and from institutions, such as insurance companies, temple *nidhis*, etc., is the Government itself acting as the intermediary who will take the money from the cities and institutions and distribute it as loans to the agriculturists at the other end. The depositors will rush in with their deposits as they have the security of the Government for their deposits. The loans can be easily recovered from the borrower agriculturist because, the Government being his creditor, all the advantages such as recovery under the Revenue Recovery Act and priority of Crown debts over other debts will be available and this will ensure the speedy and certain recovery of the sums lent. Legislation may be necessary to enable the Government to use the provisions of the Revenue Recovery Act for the recovery of these loans. An Act called the Agriculturists Indebtedness Relieving Act or shorter still, the Agriculturists Relief Act should be passed. It should authorize the Government to take in deposits at a rate of interest not exceeding 5 per cent per annum, and to lend them to agriculturists at 6 per cent per annum, the difference of 1 per cent being utilized for the expenses of the special staff required to carry on this work of the relief of the agriculturists. Act XII of 1884, the existing Agriculturists Loans Act, may itself be sufficient provided certain incidental and necessary amendments, such as, authorizing the Government to accept deposits as and for the relief of the agriculturists and extending the scope to which relief can be given to the agriculturists by Government loans. The Land Improvement Loans Act (XIX of 1893) is intended for a very limited purpose, viz., of making improvements to the holding such as the construction of a well or doing reclamation work. The Agriculturists Loans Act is no doubt wider in its scope but that too falls far short of what is required to give complete relief to the agriculturists.

Before concluding this part of the subject, I may be permitted to state that the agriculturist is able to get very little relief under these two Acts as they are worked at present. The revenue officials to whom is entrusted the task of popularizing this source of relief to the agriculturists take no interest at all in this matter and perhaps will take no interest unless their special work in this direction is insisted on as a ground for promotion. Most of the agriculturists do not know that they can apply to the Government for money for sinking a well or for the purchase of plough, bulls, etc. Nobody tells them also about it. Even if some-

how he comes to know of it and applies, the time taken in sanctioning and paying the loan is so large that the agriculturist borrower finds that, by the time he gets the loan amount, the proper time for him to commence the improvements is already gone. It is not uncommon to find that a good portion of the amount allotted by the Government every year in their budget for loans under these Acts remains unutilized. A good deal of propaganda and greater expedition in the grant of loans than what obtains at present is required if these Government loans are at all to become popular. The provision in section 5 of the Land Improvement Loans Act for giving public notice of applications for loans should be done away with, as it will dissuade many respectable landowners from applying for loans. Loans under these Acts will become more popular and the need for public notification of these loans will also disappear, if, instead of entrusting the work of granting the loans solely to the revenue officials, the village panchayats are authorized to receive the applications for loans and send them on to the Tahsildar with their own remarks and recommendations. It is useful to note that the provisions of the Madras State Aid to Industries Act 1923 have been framed in a manner which will facilitate borrowing and render it easier for the persons for whom it is intended, to get apprised of and to appreciate the advantages thereby rendered available. But even under that Act, if really cottage industries are to get assistance from the Government, the existence of the Act and the easy availability of aid should be specially made known in villages. In this country where still the bulk of the population is illiterate, it is no good to merely pass enactments and proceed under the impression that the persons concerned will avail themselves of the proffered help. More than that is required. The ignorant though thirsty horse has to be taken to the water to make it drink and get relief. Village post offices and village schools as well as rural co-operative and agricultural societies are the means which can easily be availed of to render the villager aware of these beneficent provisions made for his relief by the State. Posters affixed at these institutions and hand-bills circulated through them will be one means of popularizing these loans. The vernacular newspapers may be counted upon, if requested to broadcast to every nook and corner of the rural areas the easy availability of these loans from Government. The Agricultural Department, though shortmanned at present, may be made to take a special interest in the matter of these loans and popularize them as far as they can. The officers of that department may also be authorized to receive and transmit loan applications and so also may the village postmasters in addition to the revenue officials and local panchayats. As I have been at pains to show, it is in the working of these Acts more than anywhere else that a distinctly popular and propagandist outlook is highly and urgently necessary.

With these preliminary observations, I now proceed to answer the questionnaire:—

I.—Agricultural credit and credit facilities for small industries.

1. This question has to be split into two and then answered. There are two persons who have to be considered, viz., the ryotwari landholder or *pattadar* and the actual cultivator under him. There are also very small landholders who have very small areas which belong to them and cultivate them themselves by actually labouring on the land with the members of their families. Among the bigger landholders or *pattadars*, some cultivate their lands or estate as we may call it under the *pannai* system employing farm-labourers on daily wages or on payment in kind at each harvest; others let them on *varam* or lease to cultivating farmers. I take it that the question is intended to comprise all these persons. In my district of Ramnad the cultivating farmer gets all his requirements from the *pattadar* who advances him seed-paddy, paddy or money required for paying labourers other than the members of the farmer's own family as well as doles of grain occasionally for the maintenance of the farmer as well as the other members of his family. The *pattadar* keeps an account of all the moneys and paddy given and at the threshing floor, at the time of the division of produce, as soon as the produce is divided between him and the farmer, takes from the latter's share all the paddy due to him for his advances and sends the farmer home with only what is left which is very small and in some cases nothing at all. Instances are also not wanting where the farmer's share

may not be sufficient to meet the advances made to him in which case the balance is worked out in other ways or at a more prosperous subsequent harvest. The cultivating farmer cannot be the object of relief by way of loans from Government as he has little which he can call his own except his plough-bulls and cattle and utensils and nothing which he can pledge to the lender by way of security except the above very necessary implements of agriculture which under the law cannot be attached and sold—vide proviso (b) to Section 60 (1), C.P.C. The *pattadar* who cultivates his own lands and he who lets them on *waran* are really the persons who borrow money from outside. For all the three purposes (a), (b) and (c) mentioned in the question, some borrow (i) from the co-operative society to the small extent of Rs. 1,000 only to which the society lends, (ii) from moneyed men in the village who may be their relations or friends or known to them and (iii) from the sowcars or professional money-lenders. The bulk resort to the last as they do not know of (i) and as it is also inadequate and does not satisfy their needs in full and as (ii) is not available to all and the total number of moneyed men in villages and the amount of money available with them is not very much. The rate of interest charged by (i) a co-operative society is 9 and $\frac{3}{8}$ per cent per annum; that charged by (ii) moneyed men in the village is generally 12 per cent per annum and that charged by (iii) sowcars is anything from 15 to 36 per cent per annum. The period of a co-operative society's loan is generally two to four years, that of a loan from moneyed men in the village is generally one to two years, while that of a sowcar's loan is generally very short, six months or so. A pro-note is given and interest for six months or whatever is the agreed period of the loan is deducted in advance and the balance alone is paid by the sowcar. It is only the (ii) class moneyed men in the village that lend on mortgages where the borrower is not known to them or does not command much credit. Loans from co-operative societies are always on bonds executed by the borrowing member and two other members as sureties. Sowcars lend on pro-notes. Loans are never applied for or given on the security of standing crops. Except the co-operative society and that to the small extent of Rs. 1,000 to each member, and the sowcars and moneyed men in the village or neighbouring villages, none of the big bodies mentioned in the questionnaire such as Government, the Imperial Bank of India, etc., give any financial assistance to the agriculturists. The Government no doubt gives loans under the Land Improvement Loans Act and Agriculturists Loans Act but few villagers know of it and very little is done to make villagers appreciate the benefits of these loans and apply for them nor are they speedily granted. I have set out in the preface in some detail the defects in the working of these Government Loans Acts and suggested some remedies. I think at least one-third of the revenue raised from each village will be required for its financial relief. In the case of fertile villages which have good irrigation facilities, the amount required may be less while in the case of villages which are rainfed and not fertile and have an uncertain yield, more than a third of the revenue will be required. On the whole, for a district or province, at least one-fourth of the total assessment income will be required for the various purposes.

There is absolutely no co-ordination among the various credit agencies and there is a good deal of scope for improvement in this direction. There should be a department of Government solely devoted to rural aid and credit which work should be considered no less important than the collection of revenue. It should collect all statistics necessary and put itself in communication with the various credit agencies and bring about the necessary co-ordination. The details of staff, etc., required may be decided upon by an officer put on special duty in consultation with a select number of non-official gentlemen of position.

2. Marketing crops.—There is no method at all adopted by the villagers in marketing their produce. They are sold to merchants who either come in to purchase or purchase and send the produce to the nearest big town or market with a view to make a profit for themselves. Forming pools and co-operative efforts at marketing produce will eliminate the middleman's profit. But, co-operative principles are so little understood by the villagers and the uses of the co-operative movement for purposes like this have neither been demonstrated nor are they known to the villagers,

No credit facilities are available at present to the villager in the matter of marketing produce. In fact, in order to pay kist and meet other important demands all of which come up immediately after the harvest, the harvested paddy is sold at a comparatively low rate. If the villager can have accommodation for these calls and wait and sell his produce a few months later in *Adi Kalavadi* (July or August) he can get a better price. A temporary loan at a cheap rate of interest just for two or three months will be productive of great advantage and profit to the average agriculturist.

The sale of produce is not affected to any considerable extent by foreign trade except with respect to a few articles of produce such as groundnut, cotton, castor seeds, etc. All the other articles depend only on internal trade. Of course, groundnuts, cotton, etc., find a quicker and readier sale as big companies are out for their purchase with a view to their despatch to foreign countries. It will no doubt help to a very large extent the sale of the produce of this country if the United Kingdom made it a point to purchase all its requirements of raw materials from this country. I recently read with interest the plea of Sir Atul Chatterjee, the High Commissioner for India, that England should get all its rice from India and not merely 30 per cent of her requirements as she does at present. Burma is a serious rival to the rice trade of this province which is now in a very languishing and unsatisfactory condition.

No noticeable part is played in my district by banks and bankers in the process of marketing. It is really the merchants and dealers from neighbouring towns or trade centres that purchase the produce.

The only means of internal remittance largely resorted to are money-orders and insurances through the post office. No help is rendered to agriculturists for internal remittance by banks and bankers. Agriculturists require very little of internal remittance and the post office does its remittance work quite efficiently so that no other special provisions are needed. The only reform I am inclined to suggest is that rural co-operative societies may be allowed to get moneys from central co-operative banks and remit moneys to central banks through the agency of the post office without any charge or at a nominal charge. As it is, some officer of the society, usually the president, journeys in person from the village to the central bank which is situate miles and miles away from the village carrying money to or from as the case may be. He has to do this as his journey costs much less than the money-order or insurance charges the society will have to pay. This personal carriage of money is obviously unsafe and also leads to decay.

Negotiable instruments.—These play a large part in big trades in cities. The rural population is concerned only with the promissory notes on which loans are taken. The recent increase in the stamp duty on these instruments is felt to be a hardship by the villagers and it may with advantage be reduced to the old one anna rate. In cities, hundis are a very common form of negotiable instruments and their use will become more extensive if the heavy duty on that class of instruments is reduced.

3. *Value of land.*—The value of land varies from place to place and even in the same place according to its fertility and the facilities for irrigation which it possesses. In my village Watrap in the Ramnad district, an acre of wet land of average fertility and irrigation facilities costs Rs. 1,500 and I have recently purchased at that rate. But an acre in the same village more favourably situated for irrigational purposes than the land I purchased can be had for Rs. 2,000. Dry lands irrigable by well will sell at Rs. 500 per acre while rainfed dry lands will fetch from nothing to Rs. 200 per acre. The above are the prices by private negotiation. In Government auction for non-payment of revenue, lands are sold for a song but the sale will soon be set aside by payment of the price and the poundage, etc., penalties. In genuine court sales, lands will fetch from half to three-fourths of the price that can be had by private negotiation. In Kadathur, Udamalpet taluk, Coimbatore district, where also I own lands, an acre of wet land will fetch from Rs. 2,500 to Rs. 3,000 as the irrigation is by the Amaravati river and there is rarely a failure of crops. There are few dry lands in that village.

4. *Land mortgage banks.*—There is no legal impediment to mortgage of land or agricultural holding in this province. Only recently a few land mortgage banks had been started and very little is known to the public of their working. Capital was raised in the case of one such bank through shares. Land mortgage banks should be rendered popular on the lines already suggested by me in the preface.

(a) No measures for the improvement of record of rights are necessary. The existing record is quite satisfactory.

(b) A right of private sale may be reserved to the bank as is provided under section 69 of the Transfer of Property Act, 1882, in the cases of mortgages executed in Presidency towns.

(c) Registration of bonds may be done freely for land-mortgage banks at least in the initial stages until they become popular and successful.

The working capital should be derived largely from debenture bonds and moneys cannot be easily raised on such debentures unless Government guarantees both principal and interest. Depositors will be impatient and want their deposits back soon. Central institutions too cannot afford to have their loans outstanding very long. In order to secure Government against loss, it should be made a rule that not more than a third of the value of the lands mortgaged should be lent thereon and repayment of interest every year should be made compulsory and a first charge on the crops raised for the interest due should be provided for in every case.

Land mortgage banks should raise money at 5 per cent per annum with Government guarantee and lend at 6 per cent per annum; the difference of 1 per cent should be sufficient to cover their expenses.

The only other method that I can think of for the provision of long term credit on sound security is Government itself granting such loans. This matter has been considered in some detail in the introduction to these answers.

7. *Co-operative banks.*—In the case of certain co-operative central banks known to be functioning efficiently the Imperial Bank of India and certain joint stock banks allow overdraft. They also serve as a means of relief to the central banks when they have moneys on hand for which they can find no immediate investment. The indigenous banks treat the co-operative banks as rivals and there is no sort of intercourse between them and the co-operative banks.

So far as I know, co-operative central banks or any banks for the matter of that do not find any difficulty to get capital. Individual societies in non-prosperous areas may find some difficulty.

No extra capital is required as a large number of individual rural societies will have to be started to absorb even the amounts available at present.

There is no serious competition between co-operative banks and joint stock banks in this province.

In order to stimulate the growth of the co-operative movement, a bold policy of expansion is required before everything else. There should be greater propaganda and knowledge of the benefits of the co-operative movement should be brought home to every villager. If that is done and the whole country becomes a network of co-operative societies, more capital will be required and the inclusion of debentures issued by provincial co-operative banks among trustee securities will enable the banks to get the benefit of the large capital of trust institutions in this province such as temples and mutts. Co-operative societies are already exempt from the payment of income-tax and profession tax.

II.—Indigenous banking.

1. The only business done by the indigenous banker is money-lending. He does no other business. Some bankers conduct chits but that is mostly in Malabar.

2. The indigenous banker may be said to assist the agriculturist by lending him money as soon as it is wanted and without delay. The terms, however, are so onerous that the borrower sinks under their weight.

3. The indigenous banker does not invest all the capital necessary for the transactions he carries on. He takes in deposits, gets accommodation from the Imperial and joint stock banks and other indigenous banks. Nattukkottai Chetti firms are the most well-known indigenous banks and they help each other at what they call the *nadappu* rate of interest. The amount of capital invested, the volume of business and expenses vary in each case and no fixed or average proportion or rate exists applicable to all banks.

4. Hundis are mainly in use in cities and towns and among large traders but in small villages, printed promissory notes in the usual form is what is largely in vogue. Deposit receipts are rarely given but a note book in which the deposit is mentioned together with the rate at which interest is to be paid is usually given; the banker signs on an anna stamp affixed to the note book in acknowledgment of the deposit and its terms. There is nothing special about the forms in use in the province except that the promissory notes, etc., instruments are generally in the vernacular. Letter directing payment is also a means whereby a constituent directs his banker to pay the money mentioned therein to the person who produces the letter.

5. The loans are generally on pro-notes and only to known and approved customers. Cash credit is allowed in the account books which the indigenous banker himself maintains. If the total amount outstanding rises to a considerable figure, the constituent is made to sign on the stamp in the account book of the banker.

The banker gets moneys from deposits and from other indigenous bankers. The rates of interest allowed by them is the *nadappu* rate of interest minus one or two annas to persons who deposit with them and the *nadappu* rate for accommodation had from other indigenous bankers.

6. Interest is generally paid only in cash. It is generally deducted by the indigenous banker even at the time of grant of loan. Anything between 15 per cent per annum and 36 per cent per annum is what the agricultural community has to pay at present.

The only methods of bringing down these rates of interest are (1) legislation which should render all agreements to pay interest at more than 12 per cent per annum unenforceable, (2) establishing more co-operative societies and increasing the lending capacity of existing societies, (3) starting land mortgage banks and (4) Government itself acting as a financing agency. The reduction of the rate of interest will save many an agriculturist from certain ruin and if the rate be brought down to 6 per cent per annum, it will lead to agricultural improvements and better standards of living and comfort.

7. Far from there being any prejudice against the indigenous bankers, they are largely resorted to and the prejudice if any comes only when they seek to recover the money by the sale of the property of the borrower. The indigenous bankers are sufficiently protected and they need no special, legal or other facility. Their dealings with their clientele are conducted on lines highly unconscionable and ruinous to the latter in the majority of cases. The rate of interest beyond which they cannot recover should be fixed by legislation and the system of deducting interest even at the time of granting loan should be put down.

8. Legislation is the only means to put down their unjust dealings. Their dealings with their clientele should be looked into by the income-tax authorities in the case of those assessable to income-tax and by the same or other agency in the case of all and their attempts to over-reach their clientele and to drive hard bargains with them should be penalized. No special facilities need be given to them; on the other hand, there is great need for controlling their dealings. They would certainly resent measures for regulating their operations but such measures are absolutely necessary if the large agricultural population of this province is to be saved.

9. They generally get not less than 18 per cent on their capital.

10. They refuse a demand only where the client is not sufficiently solvent but not for insufficiency of capital.

11. The indigenous bankers should deposit their moneys in co-operative societies or debentures of land mortgage banks and these should be the ultimate lenders to the agriculturists but I very much doubt whether the indigenous banker will invest in these banks as the profit to him in the shape of interest will be necessarily low. He will rather try to get money from these banks at cheap rates, lend it at much higher rates and make a profit for himself. If an indigenous banker will stand surety for a genuine borrower even for some consideration, the banks as well as the borrower will be benefited. Competition between these banks and the indigenous bankers will be avoided only if the latter become the financiers of the former.

12. Indigenous bankers never have money idle in their hands and they rarely make any contribution to the provincial capital. The next question also does not arise.

III.—Investment habit and attraction of capital.

1. The existing banking resources are (1) the Imperial Bank of India, (2) joint stock banks, (3) co-operative banks, (4) indigenous bankers, (5) life insurance companies, (6) institutions like temples, mutts, charities, endowed schools and colleges and (7) individuals who have money, wealth and want to earn interest thereon but who are not professional money-lenders.

Additional capital is not required. The trouble at present is to find suitable investments for moneys available. Permanent Funds or Nidhis as they are called are very useful institutions to encourage savings and to promote the habit of investment. They are peculiar to this province and deserve special encouragement. Auction chits and lottery chits are also indigenous institutions which encourage saving and the accumulation of moneys for special purposes.

The facilities for investment available at present are neither full nor sufficiently attractive. They can be improved only by finding out outlets for moneys by diverting them towards industrial and agricultural undertakings. They could be taken into the smaller interior places only by the aid of co-operation, land mortgage banks and by the Government acting as the channel which takes the moneys into the interior.

There is always an inclination to make large presents of silver and gold vessels and ornaments on marriage and other occasions. This is due to the fact that these articles in specie will be ear-marked as those of the person to whom they are presented while presents in cash will get merged in the general assets of the family to a member of which the presents are made and if the family is indebted, the cash presented will be applied to bring about relief to the family from its general indebtedness. All the members of the family will be benefited thereby and the donor's intention that his daughter and son-in-law should have the exclusive benefit and enjoyment of the presents will be defeated by presents in cash while it will be facilitated by presents in the shape of gold and silver articles. Further, owing to the right of survivorship obtaining under the law in Hindu joint families, the only resources available to the widow of a sonless deceased co-parcener are her jewels and vessels and naturally the sonless husband and wife are anxious to increase the investment in that form to save something for the widow in case of the husband's death without division. Also, in cases where the husband is a trader whose fortunes are uncertain, wife's jewels are a good savings bank on which the family can fall back when the creditor has taken away everything else as the trader's property. I do not think it can be said that all these objects are improper,

2. *Postal Cash Certificates.*—Postal Cash Certificates are no doubt popular in cities and towns but not in the villages as few villages have money to invest and those who have, can get a better return by way of interest by lending it in the village itself. The rate of interest will

have to be enormously increased if these certificates are to become popular in villages and I do not think that it will be possible for the Government to increase the rate of interest sufficiently high to make them popular in villages.

The present rates are not sufficiently attractive to all people even in cities. It is only the richer classes who have to invest their moneys in fixed deposits in banks at 4½ per cent or 5 per cent per annum that purchase the Certificates. The average middle-class man desires to earn a higher rate of interest. If it is really intended to attract him, a much higher rate of interest should be given such as Rs. 7½ becoming Rs. 10 in three or at least four instead of five years. The maximum limit to which such Certificates can be held may be reduced to Rs. 5,000 in that case. On the other hand, if it is intended to provide a means of investment for the richer classes, the limit to which an individual can hold these Certificates may be increased to Rs. 50,000. A larger number of this class will be attracted if the old rate of Rs. 750 for a Certificate for Rs. 1,000 in five years is restored instead of Rs. 775 for Rs. 1,000 as it now obtains.

Savings banks.—Savings banks do not afford the same facilities which a bank does. There are limitations as to the time for deposit and withdrawal, if interest is not to be lost; and the system of issuing cheques is not available. Every time money has to be drawn, the depositor himself has to run to the post office and the pass-book has always to accompany an order for withdrawal. Only students and small investors such as servants, etc., go in for them. If other classes are to be attracted, the system of permitting the depositor to issue cheques as against the deposit should be introduced and the necessity of the pass-book to accompany every withdrawal must be dispensed with. The interest on the amount to the credit of the account should be calculated on daily balances and not in the manner obtaining at present.

In view of the fact that a limit of Rs. 10,000 has been fixed on the Postal Cash Certificates, there is little room to apprehend any real competition of Government with banking institutions.

3. Very little surplus remains in the hands of most of the villagers. Those who save, can save only very little and this they lend to their friends until such time when a marriage or death happens in the house and it is needed for that purpose. Whenever they lend, they do so only on easy terms and not like the professional indigenous banker on onerous terms.

4. *Cheque habit.*—The cheque habit is in vogue largely in cities and towns only. The abolition of stamp duty has greatly increased the issue of cheques. There being no fear of expense on account of stamp, it has become the habit latterly of persons like me to make payments wherever possible only by cheques. Only a very small amount of cash is kept in the house for petty expenses for which cheques will not be accepted such as the purchase of vegetables or groceries. Bills are met only by cheques. Servants' salaries are disbursed by cheques. There is no need to keep a separate account as the bank does it for you. A voucher is secured unasked by the endorsement of the payee on the cheque in the case of every payment. The money instead of being kept in the house is kept in the bank and the bank has been rendered as useful and as easily available as the cash-chest of the house. Most of the moneys are left to remain with the bank so that they are useful to the public.

Only the classes which have always ready cash on hand use cheques. They are mainly the richer classes. Institutions whether public or private though not very rich always use cheques as the safer and more secure mode of payment. The cheque habit is good for the individual as well as the public and must be encouraged. In addition to Government servants and bank employees, courts too should be made to accept cheques for printing charges, deposits, hearing fees and other similar payments. The printed papers need not be issued until the cheques are cashed even if the court should entertain doubts as to whether a particular cheque will or will not be honoured. To carry a large sum of loose cash to court, to entrust

It to clerks for payment and wait till the temporary and permanent receipts are produced by the clerk in proof of payment and then to check them throws a lot of unnecessary labour on busy practitioners. It is a much needed relief to the practitioners to allow them to pay by cheques instead of in cash and I am sure it will be duly appreciated. Cheques may be printed in the vernaculars as well as in English and pass-books also kept in vernaculars wherever necessary. This will extend the cheque habit even to people who know only the vernaculars and do not know English.

5. I agree that the banking habit in India has been of very slow growth. It cannot however be said that there has been no investment habit. In the past, people had very little cash in this country. Trade was done generally in kind and rarely in cash. In our ancient books, a man's wealth is always referred to as consisting of so many cattle and so much of corn. Whenever a king is spoken of as generous or as having patronized learned men, he is said to have given elephants, horses, or cows or bags of corn. Even after the advent of the British Government, the selling price of paddy and other products of this country was too low to permit of any large accumulation of money for investment in banks. The Indian has always a desire to acquire lands more especially if the lands to be acquired are adjacent to the lands he already owns. Any small capital which was saved was used to be lent to friends, relations, or neighbours in need or on usufructuary mortgages of immovable property. Some of the richer houses used to purchase large and big vessels useful for special occasions such as marriages, feasts, etc., in their own houses or in neighbour's houses or in the temple as these generally did not own them. It should also be remembered that banks did not exist in the past in such large numbers as they do at present. The Indian's notion in the past has generally been that if a man gets more than his present mode of life and comforts require, he should spend the surplus in doing acts of charity and benefit to the public and in relieving fellowmen in need. The idea never entered his mind that he could and should increase his standard of life or his comforts. On the other hand, there was no difference in the mode of daily life or comforts between the rich man and the poor man. The only methods in which surplus income could be utilized in those days were in renovating temples, in providing for some special service to the God and so on. It will thus be seen that the mental outlook of Indians have till recently been such as was not conducive to the growth and development of the banking habit. Generally, people had enough lands and they had not to accumulate money to depend upon in old age. The joint family fed and clothed every member. It is only recently after the introduction of higher western education that families began to sell their lands and educate their sons who by their qualifications were appointed to posts on large salaries in the service of Government or elsewhere; and, as they have to retire in middle life, as they have accustomed themselves and their families to an expensive style of living and as the family lands have all been sold away for their education, they are anxious to save and keep by as much as they can, so that they may have enough to live upon equally comfortably in their old age. Such persons having been accustomed to city life settle in cities even after retirement, and they have naturally no strong desire to own lands in villages; they generally deposit their moneys in banks which pay interest every six months and half a dozen such deposits assure an income every month by way of interest unlike investments on lands whose yield is generally uncertain, depends on the monsoon and is only once in a year though attention and industry have to be bestowed on them throughout the year. Failure of crops is also not an infrequent contingency which discourages investment on lands. Modern conditions especially in trade where every article is to be had only for money, the raising of the standards of comfort, the modern system of children's education which requires a lot of money and many similar causes have all conspired to convert the Indian's inborn desire for lands into one for money, for the preservation and increase of which resort to banks has naturally become necessary. This has been going on for nearly three or four decades that the complaint now is that the existing banking facilities are insufficient. Safety under a settled Government is also a factor not to be lost sight of that has contributed not a little to the growth of the banking habit. It has become no longer necessary to bury one's wealth in pots underground to escape thieves or exceptional taxation or impressment by Government. The banking habit has, therefore, naturally begun to grow.

The periodical increase of the assessment on lands in this province has also contributed its own share to dissuade people from investing on lands. There was a rush for lands in this province after the big bank of Messrs. Arbuthnots failed in 1906, but two decades of safe banking has again restored the confidence of the moneyed section of the population and the banking habit to-day has become fairly well established.

The history of industrial undertakings in the province on joint stock basis has been on the whole anything but satisfactory and people are naturally reluctant to invest their moneys on any such undertakings. If money is to be attracted for such undertakings, the Government must take a large share of the responsibility as moneys will be freely invested in such undertakings only if their safety is guaranteed by the Government. Propaganda by Government in regard to Government loans for capital expenditure on industrial or commercial undertakings will certainly meet with a ready response.

The opening of new branches by the Imperial Bank of India has no doubt been useful as it has helped the growth of the banking habit. It cannot however be said that it has aided to any appreciable extent the starting of new industries or the expansion of existing industries. There has also been no great relief to the indebtedness of the rural population by the opening of these branches. An entire change of outlook in the running of the Imperial Bank of India and of its branches will be necessary if they are to serve the purposes above mentioned. The opening of a large number of agricultural banks preferably on a co-operative basis will better serve the purposes of the large rural population of this province and special industrial banks should be started to aid the growth of industries.

Written evidence of M.R.Ey. T. P. NARAYANASWAMI AYYAR
Avargal, B.A., Tahsildar, Rajahmundry.

I.—Agricultural credit and credit facilities for small industries.

1. The ordinary agriculturists in this taluk who own about 10 or 15 acres do not generally borrow money for expenses for cultivation or for improvement, unless there was a failure of monsoon in the previous year, as they keep the seeds, etc., with them for cultivation. If they have to borrow, they do it from a bigger ryot in their own village or neighbouring village. They do not go for loans to the Imperial Bank of India. In the villages in which there are co-operative credit societies, loans are taken from them. There are not many professional money-lenders in the villages of this taluk, except at Rajahmundry. When big amounts are required for purchasing lands or for marriages, the ryots go to the professional lenders at Rajahmundry. For purely agricultural purposes, no loans are generally taken. I may also add that ryots owning 10 acres or so have generally no debts and it is only big ryots owning 100 acres or more that run into debts for marriages, etc. Ryots owning a few acres themselves work in the fields with all the family members.

2. In every village there are one or two middle men who purchase the produce in the villages at the instance of the big merchants at Rajahmundry and bring the produce to Rajahmundry. The ryots are paid then and there, but, as the produce is sold soon after harvest, the price at that time is low. The merchants stock the produce at Rajahmundry for some months and sell it when the price is high. Big ryots who can afford to wait, stock the produce in their houses in the villages for some months and sell them only when the price is high. Thus, most part of the profits goes to the merchant rather than to the ryots. Hundis, etc., are not generally current in the villages. The merchants of Rajahmundry who purchase the produce from the villages may take loans from the bank or big money-lenders.

3. The value of lands varies with reference to their classification as wet or dry, fertility, facilities for irrigation, etc. Dry lands are sold from Rs. 100 to Rs. 200 or Rs. 250 and wet lands from Rs. 200 to Rs. 800 per acre. Wet paddy is cultivated on wet lands, and gingelly, budama paddy, cholam, ganti, ragi, etc., are grown on dry lands. On dry lands 2 crops may generally be raised in a year, one after another if the monsoon does not fail. The value of lands does not vary much, whether it is by sale in auction for non-payment of revenue, court auction or by private negotiation, provided the sale is not made privately without sufficient publication.

4. There are no legal impediments to mortgage of lands and there are no land mortgage banks in the taluk. This being an up-land taluk with a large extent of waste land depending on timely rains for growing any crop, the people are generally very poor and no agricultural or land mortgage banks would seem to be necessary.

5. The ordinary ryots in the taluk are not much indebted. The rate of interest in villages is from 12 to 18 per cent. It is calculated at Re. 1, etc., per mensem per cent. The return of debt is at first demanded and if it is not paid, it is demanded through some mediators and then the debtor is threatened with civil suit. There are cases in which small ryots who are indebted to big ryots have to surrender their lands in discharge of their debts.

6. There are no subsidiary industries followed by agriculturists or their families in this taluk.

6-A. Hand-loom weaving is done only by the caste weavers living in some villages of this taluk.

7. Co-operative banks are more popular with the ryots than the Imperial Bank. There are no indigenous banks in the villages.

II.—Indigenous banking.

1. There is no indigenous bank in the villages, but only at Rajahmundry town.
2. The indigenous banker assists trade to a large extent and industry to some extent, but not agriculture.
3. Every money-lender lends only the amounts at disposal with him and he has no special expenses to incur therefor. The rate of interest charged by him is generally greater than at the Imperial, etc., Banks.
4. Hundis are not much used by money-lenders.
5. Loans are mostly granted on pledges of jewellery, mortgage of houses and lastly mortgage of lands.
6. No such cases.
7. None.
- 8 & 9. None.
10. The money-lenders require pledges of 3 or 4 times the amount of the loan asked for or refuse to advance any loan.

III.—Investment habit and attraction of capital.

1. If any ryot has any money to spare, he keeps it with him or lends it to his neighbour who may require it, until there is some opportunity for him to purchase land. He does not want to invest it in banks or postal savings banks. Money is not invested in silver or gold purely for investment's sake, but it is due to an inherent love of Indian women for jewellery.
2. Postal Cash Certificates are not so popular in the taluk.
3. Purchase of Government securities is not resorted to, as the ryots are generally poor.
- Produce is sold by ryots at the kist season to pay off the kist and at other times for their domestic expenses, marriages, etc. Big ryots lend money to their brother ryots when necessary at the prevailing rate of interest.
4. Cheques are not used by ordinary people. They are used only by well-to-do people at Rajahmundry.

Written evidence of the Secretary, the Nellore Permanent Fund, Limited, Nellore.

1.—Agricultural credit and credit facilities for small industries.

1. In this district the agriculturist in each village generally obtains finance for (a), (b) and (c) requirements from the rich landlords and money-lenders in the village itself or in the neighbouring village.

The rates of interest for cash lent varies from 9 to 12 per cent per annum; and, when paddy is loaned repayable in kind, the rate of grain interest varies from 25 to 37½ per cent.

Generally the loans advanced are repayable in the case of (a) class loans during the ensuing harvest, in the case of (b) class loans during a period of three years, and in the case of (c) class loans needed for failure of monsoon are required to be repaid during the following year by about the harvest season and those for land revenue till the produce harvested is sold at a favourable season.

The security for (a) class loans is generally an entry in the account books of the lender, for (b) class loans a mortgage or an instalment bond or a promissory note and for (c) class loans a book entry or a promissory note.

The part played by Government in agricultural finance is practically little or nothing; a few *takari* loans granted by Government do not touch even the fringe of the needs of the agriculturists. The number of restrictions and formalities to be observed in the matter of such loans are too hard and beyond the comprehension of the simple illiterate agriculturist.

The Imperial Bank of India generally grants loans only on the security of the produce till such time as a favourable season for marketing the produce arrives. This system does not help agriculturists owning small holdings.

The district co-operative bank finances the village agricultural societies which cater to the needs of the agriculturists in the village, both small and big, in respect of requirements for the three classes of loans (a), (b) and (c) of the question.

Except the Nellore Permanent Fund, Limited, there is no other indigenous bank in this district. This Fund grants loans for agriculture, trade and industry among other purposes and generally requires the mortgage security of the lands or buildings or jewels for the loans advanced. The professional money-lenders and merchants and dealers lend monies on the security of the incoming harvest produce. So far as short terms loans capable of being repaid by the proceeds of the crop raised during the year of the loan are concerned, they have to be paid during the year and in the case of loans granted on account of failure of monsoon another year's time is granted till receipt of the next harvest produce on the same terms. In the case of loans requiring a longer time to repay, a mortgage or a bond or a promissory-note is taken according to the solvency of, or confidence reposed in, the borrower.

It would be difficult to estimate the amount of capital required. If all the needy agriculturists are to be financed it may require about Rs. 50 lakhs or more.

The present system by which agriculturists obtain finance is defective in more ways than one. In the first place all agriculturists who need help are unable to get the money required by them, as the grant of the loans depends as it does on the whims and fancies, likes and dislikes, of the village money-lender or sowcars concerned. Secondly, each village has got only one or two professional money-lenders besides a few rich landlords. Thirdly, the money-lenders and the rich landlords have not enough funds to meet the requirements of all the agriculturists in the village. Fourthly, the borrowing agriculturists, being mostly owners of small holdings, have to depend on their creditors for all monetary help required by them to meet their other wants and have to drudge and slave for their creditors, several of whom do not scruple to treat them as their chattel and require every kind

of service required by them done *gratis* and without heed to the personal inconvenience of their debtors. The agriculturist-borrower cannot refuse the behests of the creditor for fear that the latter would pounce on him and demand the repayment of his debt, which practically ruins him, for the poor borrower has none to look to, to help him to tide over his difficulties. The only remedy, that I would think of, is the further extension and utilisation of the co-operative machinery, as well as of co-operative propaganda of an intensive character, along with the provision of cheap credit, by means of the establishment of land mortgage banks within the easy reach of the agriculturist. Each taluk firka should be sub-divided into small groups of about a dozen villages, and each group of villages should be provided with a land mortgage bank to finance the needs of the agriculturists in the group. These should be financed by a district agricultural central bank. The village co-operative society and the group agricultural bank should co-ordinate their activities and act in unison. Co-operative effort should be extended so as to provide for co-operative grain banks, and co-operative marketing to relieve the chronic indebtedness of the agriculturist, so as to secure a reasonable price for his produce and save him from the usurious grain interest now paid by him to his creditor. Thrift and investment habit in the agriculturist should be fostered by means of propaganda and by the extension of banking facilities on a co-operative basis, and not on capitalistic or individualistic basis, as near as possible to the homes of the small conservative illiterate agriculturists.

Unfortunately, there is not much of co-operation between the one indigenous bank (Nellore Permanent Fund, Limited) and the other credit agencies. The Imperial Bank co-operates to a very limited extent with the district co-operative bank in giving it facilities for overdraft account.

2. In this district small agriculturists sell their crop for low prices well in advance of their harvesting to the sowcar or the middle man from whom they had borrowed on the security of their future crop. The well-to-do agriculturists bide their time and sell their produce at the proper time when a satisfactory value may be expected for their produce. In either case there is no co-operative effort by the agriculturists to pool their produce and to dictate their prices under which they would wish to part with their produce.

At present, the owners of small holdings generally sell their produce either for advances received by them from the sowcar or for meeting land assessment during the kistbandi season. Rich landlords stock their produce in their own godowns or grain receptacles to be sold generally after the next sowing season when they will be able to understand the prospects of the coming harvest and when they can also expect a fair price for their produce. There is no co-operative effort nor an idea of forming pools among the agriculturists big or small. If the agriculturists small and big could be supplied with advances for their requirements, they could be induced to pool their resources and wait for the proper time for marketing their produce to the best advantage. Except the few loans granted by the Imperial Bank on the security of paddy, there are no credit facilities actually existing for the financing of products during marketing. To bring into operation such facilities cheap money at call should be supplied. This can be done only by means of village co-operative societies which should be provided with sufficient funds to finance those willing to form pools. The principal source of getting funds for this purpose in this district is the Imperial Bank whose method of working does not conduce to afford greater facilities to the indigenous banker, who is the village sowcar in a majority of cases. The management of the Imperial Bank is controlled largely by non-Indians at the metropolis, who cannot be expected to bestow anything more than a step-motherly care to aid the indigenous bankers in their efforts to help the Indian trade. There is much difference in regard to such facilities between internal trade and foreign trade. The Imperial Bank gets vast funds from Government practically free of interest by which they are enabled to compete with indigenous bankers instead of helping them. Thus the internal trade is handicapped while foreign trade has every kind of facilities afforded to it for due expansion and earning of large profits. I also learn that very little freedom is given to managers of the branches of the Imperial Bank in the matter of advances even to suitable applicants for help, for they have to largely rely upon the instructions of the head office in the matter and as such have very little initiative of their own. To obviate these disadvantages and help internal trade it would be necessary

to appoint indigenous banks as agents of the Imperial Bank or where none exist, suitable agents, taking sufficient guarantee, so that through their help and local knowledge credit facilities for financing of products during marketing may be extended to agriculturists. As it is, the Imperial Bank of India is more helpful to foreign trade and the non-Indian exchange banks have practically monopolised the export trade in cotton, tobacco and other articles even in the interior of the Presidency. They are carrying on their operations in the country practically under no restrictions, though they are helped by the Imperial Bank of India with its vast resources. The foreign banks do not help in financing agriculture or afford any help to the indigenous bankers. It is therefore necessary to largely indianise the Imperial Bank of India and make it afford easy credit at a low rate of interest to co-operative societies so that they may extend their helping hand to the agriculturists. The co-operative system shall have to be made more elastic and less hide-bound than it is now to enable it to sub-serve the interests of the agriculturists better.

6. Rice-milling and hand-spinning are the two subsidiary industries in this district.

Hand-spinning might be organized on a co-operative basis so that a better return for the yarn spun may be got and funds provided for the capital outlay. The agriculturist should be encouraged to sow cotton seed for his personal use and as a subsidiary industry so that he might spin it during the non-agricultural season to supplement his income.

9. The relationship between the co-operative bank and other banks has been dealt with in my reply to 1 (1).

There is no difficulty in the matter of short term loans and as regards long term loans while the societies require them for 10 or more years, the rate of interest on long term deposits being fixed at not more than 5½ per cent per annum, the district co-operative bank feels it difficult to grant long term loans for more than five years and looks for the central land mortgage bank to materialise soon for this purpose.

There is no competition between co-operative bank and other banks in this district.

It is necessary to extend special exemption from income-tax to co-operative societies and to include debentures issued by provincial co-operative banks in the list of trustee securities.

II.—Indigenous banking.

1. The only indigenous bank in the Nellore district is the Nellore Permanent Fund, Limited, with its headquarters at Nellore. The area of operations is confined to Nellore, Kovur, Gudur, Kavali and Venkatagiri taluks. It lends on the security of houses and lands and on gold and silver bullion, jewels and other articles. There are provisions for lending on Government securities, mortgage of debentures, stock on shares of railway companies and municipal corporations, to co-operative societies and on articles of merchandise not subject to speedy decay, i.e., paddy, pulses, grains, cloths, timber and metals, etc., as per Rules 16, 17 and 18. But those provisions have not been utilized for the purposes owing to want of facilities such as godowns, etc., and easy and cheap credit from other local banking institutions, the Imperial Bank of India or the district co-operative bank.

2. Except lending on the security of property for agricultural, among other, purposes the Nellore Permanent Fund, Limited, does not assist in financing agriculture, trade and industry.

3. The Nellore Permanent Fund, Limited, is working with—

(a) an authorized capital of Rs. 15 lakhs;

(b) its volume of business is represented by the issued capital of Rs. 7,87,605;

(c) its annual expenses amount to Rs. 7,000; and

(d) except a current account opened in the district co-operative bank there are no other relations with the other banks.

4. When deposits are made, receipts are issued to the depositors. The interest on deposits is 2 per cent per annum on current deposits, 4½ per cent on temporary deposits, 5½ per cent on one year fixed deposits and 6 per cent on deposits for 2 or more years.

By collecting subscriptions monthly or annually from share-holders and by deposits, the funds necessary are secured for the working of the Fund. Simple loans on promissory notes are granted to subscribers on their paid-up subscription, mortgage loans on the security of movable and immovable properties, and loans on deposits on the security of the deposit and loans on the personal security on the joint security of another person. No cash credit is allowed by the Fund.

5. The Fund levies interest on loans lent to subscribers at Re. 0-8-4 per cent per mensem if repayments are made monthly and at Rs. 6-8-2 per cent per annum if repayments are made annually, at Re. 0-12-6 per cent per mensem on loans on personal security and Re. 0-10-5 on loans on the security of permanent deposits. As for the rates of interest prevailing now and the manner by which they could be brought down please *vide* my remarks on item (1) of the questionnaire.

6. There is no prejudice against the Fund. On the other hand this institution has a standing of forty-one years and its usefulness within its limits has been steadily increasing as will be seen from the latest annual report with the balance-sheet, receipts and charges statement and profit and loss statement attached to it.

7. This fund and similar indigenous institutions can be made more serviceable by extending their operations, if cheap credit and accommodation by allowing overdraft, etc., are allowed to these institutions by the Imperial Bank under the directions of the Government. Credit and accommodation may be given on a liberal scale consistent with safety for repayment on deposit of the securities held by these institutions.

I do not think that any new measures or special legislation for regulating these institutions are called for as they are working efficiently under their own regulations. These institutions would not mind if greater publicity should be given to their transactions without altering the basic structure and principles on which these institutions have been working satisfactorily all along.

8. The Nellore Permanent Fund, Limited, made a net profit of Rs. 10,000 on its transaction (please *vide* annual report referred to above).

9. The fund is obliged to restrict the amount of loans granted by it on account of insufficiency of funds to meet large demands. Of course, loans are refused if title to the securities offered by the subscribers is found to be defective on scrutiny.

10. Establishment of a branch of joint stock or other banks is not necessary, if facilities for cheap credit and accommodation as may be required from time to time are allowed by the Imperial Bank or the district co-operative bank by enacting special provisions, if necessary, in the regulations and rules governing these institutions.

11. There is no money in the hands of the indigenous bankers lying idle so far as this district is concerned. On the other hand, these bankers have to borrow elsewhere to run their business and meet all the demands made on them.

III.—Investment habit and attraction of capital.

1. Share capital and deposits are the chief resources. At present there are postal savings bank accounts and current temporary and permanent and savings deposit accounts opened in the co-operative societies and the Nellore Permanent Fund, Limited. These serve only the needs of a small section of the population; there are no such facilities for saving in a large number of villages. By starting village co-operative societies in villages such facilities may be extended.

There was the habit of such investment but now the people are too poor to think of such an investment on any respectable scale and the habit of investment in banks is slowly being awakened in the minds of the people.

2. The Postal Cash Certificates are not popular. No steps need be taken to popularise them or the postal savings banks. On the other hand, if steps are taken to divert the amounts deposited in these accounts and

in the Imperial Banks to co-operative banks, they could be lent for financing agriculture and marketing agricultural produce and help the agricultural industry, which is the chief industry on which the revenue of the Government and the prosperity of the ryot so largely depend.

3. No special facilities need be given to the small agriculturists to invest their funds, of which they possess precious little, as they should be made to deposit their monies, if any, in the village co-operative society, where they will fructify to the mutual advantage of the investors. Very few get monies by sale of produce over and above their actual wants. Such of them as do get much more than their ordinary requirements invest the funds in improving their holdings or purchase of new lands. They lend any surplus cash with them at an interest ranging from 9 to 12 per cent per annum.

4. There is little or no cheque habit in this district. It is just beginning to become familiarised by the district co-operative central bank and the abolition of the stamp duty on cheques goes to encourage and spread the habit. This system finds favour with the literary classes. Cheques for payment to Government servants drawing over Rs. 100 will not be of much use as there will not be many who draw more than Rs. 100 per mensem. Vernacular scripts may be used in banking to extend their popularity.

5. The banking and investment habit as understood in modern times is of slow growth due to the conservatism of the people, being a new departure from traditional methods of investments. People are slow to invest their savings in productive undertakings as the undertakings generally are carried on elsewhere and the return by way of dividend for their capital is not found to be equal to the return they get from local investments.

The opening of the branch of the Imperial Bank of India has not done any material good to the large mass of the public, barring perhaps a few who were fortunate in securing accommodation from the bank.

**Written evidence of M.Ry. VUPPUTURI VENKATA
PUNNAYYA GARU, Banker, Gin, Rice and Oil Mills
Owner and Cloth Mills' Agent, Guntur.**

1.—Agricultural credit and credit facilities for small industries.

1. The landed area of our district is generally divided into two different classes, the wet lands where paddy crops are raised and the dry lands yielding tobacco, cotton, chillies, groundnuts, etc. There is much difference in the nature and habits of the agriculturists of these two areas. The former are of more extravagant habits and costlier style of living. The passing of lands from one hand to another is more frequent amongst them, while the dry lands' ryots are thrifty and frugal. The agriculturists in general borrow monies for payment of revenue, expenses of cultivation, buying new lands and payment of prior debts. The first two borrowings are either made from bigger ryots or commission merchants in town through whom they are obliged to sell their produce, paying them a commission on sales, in addition to the interest charged upon the borrowings. When money is required for buying lands, celebrating marriages, etc., they have to approach the indigenous bankers or co-operative societies. In both the cases of indigenous bankers and the commission merchants, interest is charged from 10 to 14 per cent per annum. The lands are mortgaged but the security of standing crops is not accepted. The practice of collecting the interest or the principal in kind is almost extinct though it had its booming period some fifteen years ago.

2. As for marketing, the ryots in the dry taluks are now able to sell their tobacco and groundnuts direct to the exporters while for chillies, paddy and cotton, etc., they sell through commission merchants, who very often advance money against the produce delivered, and stock them on their behalf for a time to fetch the best price. Merchants or big ryots in their turn borrow monies from joint stock companies or the Imperial Bank against the collected stocks. Very little of this business passes into the hands of the indigenous bankers due to the difference of rates of interest charged. There is not much scope for forming pools for the marketing of produce. In tobacco the agriculturists are put to a great deal of handicap in dealing with the Imperial Leaf Tobacco Development Company, as they have got their own methods which are ununderstandable to the ryots lured away in the beginning, but which ultimately give them disappointment. This system has to be investigated and improved to the advantage of the ryot. In course of time co-operative societies may still be made more useful to the ryots in many other ways.

3. The values of lands differ very greatly according to the crop raised, the quality, the locality, etc. The wet lands are valued from Rs. 700 to Rs. 1,800 per acre, while the dry ones cost from Rs. 250 to Rs. 800 per acre. The values got either by private negotiation or court sale or revenue sale will almost be the same but largely depend in the latter case upon the publicity given. The farmers are not turned usually into tenants.

6. The agriculturists do not find employment in the fields throughout the year. Some engage in coolie work or carting in towns near by. Quarrying, hand-spinning, hand-ginning, rope-making, brick-work, hand-loom and brick-laying will successfully prove as supplementary industries, though the last two are followed as primary industries by professional people. Many other industries depend upon the resource of the locality. Quarrying and stone polishing of a particular kind of stone, available only in Palnad taluk, can best be organized on a sound and paying line. Of all the supplementary industries hand-spinning is the best which can find employment for young and old, skilful or unskilful, male or female, and irrespective of any other resources, quality, locality or traditions. This can be made most universal and can provide engagement for many lakhs of people as no other. The charkas can be distributed by co-operative societies and all transactions can be done in kind, e.g., receiving yarn, giving manures or cloth or agricultural implements. Hand-spinning in its turn entails still subsidiary industries as carpentry, hand-ginning.

The warehouse system though admittedly better is not practicable in mufassal places except in cities like Madras. It saves a lot of insurance charges and trouble to bankers.

The railway receipts, delivery orders, bills, a registered boat chalan, are in commercial practice recognized as rights of ownership. They may be recognized as such in law also.

II.—Indigenous Banking.

1. The Marwaris, migrated from the north and the rich people in the district do form the indigenous bankers. Either they do not receive deposits or some prejudice exists towards them. They trade with their own capital and up to their own capacities. But the Marwaris draw their moneys from Northern India at a very cheap rate of interest of 4 or 5 per cent and thus sell hundis on Bombay when requiring money. It is why rates of exchange for hundis on near towns like Rajahmundry, etc., are more than for Bombay. They give short credits without fixed period so as to be able to demand either money back or raise the rate of interest immediately the money-market gets tighter. The interest will be from 12 to 20 per cent, but being collected every two, three or four months gives them a still better return. Moneys are not at all lent against mortgage of lands by Marwaris. There is not much co-operation amongst themselves or with the other indigenous bankers. But when one Marwari suspects the solvency of a party, he generally broadcasts it amongst the other Marwaris and they altogether rush to the debtor, sit on his neck, give him no breathing time and force him in several ways. Even if they are assured that the debtor has good solid properties, which, if sold at a little leisure, will fetch good prices and that a better dividend, if not full discharge, will be available to the creditors, they do not wait. There are many instances where, if not for their force, many insolvents would have been saved the situation. Due to their high rates of interest they have got a good margin, a sort of self-insurance it looks as though against bad debts.

The other class of bankers generally lend on pro-notes and mortgages for longer periods of one year, three years or more, pro-notes being renewed. The rates of interest charged are from 9 to 14 per cent. They are more fair and reasonable in their dealings with their clientele.

2. The indigenous bankers in general finance trade and industry, lend on pro-notes, mortgages, against produce stocking, and exchange of hundis. No other nidhi or co-operative system of banking as in Southern India has existence here. Only the Imperial Bank and the Indian Bank have got branches here, the latter being established very recently. Bigger merchants owing to the insufficiency of credits allowed to them in the banks, the necessity of co-obligants and other formalities, and small merchants have to approach the indigenous bankers for business capital. The Marwaris will be financing some indiscriminately whereby the merchant in such cases does business and takes risk which his status or his capacity does not justify, ultimately resulting in failures. The Marwaris do always offer the facility of cash credit system, without the necessity of co-obligants' signatures. The banks are not giving this facility of cash credit or over draft to their clientele except in very few favoured cases. These systems ought to be more free and should be introduced on a larger scale.

3. The indigenous bankers may not agree to be subject to any regulation regarding publicity of their accounts, etc. As they do not receive deposits at present, they do not see their obligation to anybody in the matter. Excepting Marwaris, others are not purely bankers but are people who have got their own other businesses, lands, godowns, etc. They do not have separate accounts but maintain joint accounts wherefrom it is next to impossible to separate either the incomes or expenditure strictly in reference to the different kinds of sources or transactions. The very high rates of interest prevailing signify amply that there are neither surplus funds in their hands, nor any money flowing into provincial capital, and probably they are unable to accommodate all demands made of them. There is not at present much relation between the indigenous bankers and the banks. Even the co-operative bank (district) is only treated as any other big client. The discounting of bills (hundis) is not at all in practice. The Imperial Bank attempted at its introduction but gave it up in one year. There is much that can be done in this line. For it to become popular, the heavy stamp duty now attached to it should necessarily be reduced. It should be almost an alternative instrument for a pro-note in regard to its expense. The bill discounting is the only link that can be forged to form a connection between the bankers and the banks. This gives the banks

a safer way of investment and the bankers can rotate more capital in banking than otherwise, like the Multanese. This is a healthy system capable of much improvement and may necessitate in course of time a clearing house.

Pathans and small money-lenders lend to the poorer classes of society against gold, etc., at such abnormal rates of interest as 20 to 30 per cent.

Regarding the land mortgage banks, I suggest that in any scheme it should not be allowed to lend money for other than certain purposes, e.g., buying new lands, making permanent improvements or payment of prior debts, if such are proved to have been contracted for similar purposes. Lending for marriage expenses, etc., are only promoting extravagant habits and ways of life. The tenants of the lands mortgaged, if other than the owners, should be made to have a sort of connection with the lenders. The debentures to be issued to raise the capital of such mortgage banks should of course be backed up with Government security.

The costs of reference to title and ownership are undoubtedly heavy and admit of much reduction. I would also suggest a list of registered genuine indigenous bankers in the District Registrar's Office (like that of medical practitioners). With such bankers by depositing the title deeds, and executing of a security (trust) deed hypothecating properties, the transaction should be in law made as good, valid and enforceable as the mortgage deed. This method is in vogue in cities and can safely with some precautions be adopted in other towns also. It can be made obligatory upon such bankers to furnish information of such transaction to the registration office with some fees to register it in their books for reference. It is also highly necessary to make law courts inform the Registrar's Office of court attachments, securities, etc., as the non-availability of which information has been often instrumental in deceiving money-lenders.

The process of law in recovering debts either by banks or bankers is not becoming too costly but allows much procrastination. The Government should be able to devise some simpler and easier methods. It is not out of place to remark that the Insolvency Act, is very lenient towards its debtors. This is more terrorising the creditors than is useful to the genuine debtors. The prosecution for concealment of properties and false representation of facts should be made automatic and rigorous. The Government may also employ the Criminal Investigation Department to find out bogus failures filed to deceive creditors as distinguished from genuine failures. The procedure followed in insolvency courts should be quicker in operation.

While reduction in stamp duty on cheques improved their use in cities, it has not had the desired effect in other places. The banks can do much in this line if they want. The cheque should be encouraged a good deal. The people of these parts invest their savings in lands, godowns, houses, and such other solid properties which tend to raise their status in society and mark their solvency. Investment in Government securities and Postal Cash Certificates is not popular. A change is however needed in relaxation of restrictions imposed on endorsements, etc., on these bonds.

**Written evidence of M.R.Ry. J. GOPALAROW CHOWDARY Gard,
M.A., District Labour Officer, Guntur.**

Preamble.

Conditions of banking in this district and its development in the direction of facilitating agricultural finance do not presently and directly affect the interests of the landless depressed class man and the small peasant. He gets credit from the local money-lender and in some measure from the co-operative organizations and ordinarily from the caste ryot who employs the depressed class man and exploits his labour and I am therefore obliged to leave a considerable portion of the questionnaire which has no direct and immediate bearing on the agricultural interests of the depressed classes. I have not chosen to answer portions of the questionnaire which demand technical and expert knowledge in banking.

I.—Agricultural credit and credit facilities for small industries.

1. (a) to (c) The ryot does not heavily borrow for his cultivation, sundry expenses being met either by his savings or hand-loan. He could not help seeking credit from the village sowcar for permanent improvement to his land burdened with a heavy rate of interest. The Government comes to his rescue during flood and famine by grant of loans under the Agriculturists Loans Act and the Land Improvement Loans Act.

The rates of interest obtaining in this district vary from 9 to 18 per cent. The period of loan is ordinarily one year rising to a maximum of three years. The tendency to afford credit on pro-note without additional security is now disappearing, land mortgage system taking its place. Credit on security of standing crops is becoming popular in parts of the district.

The agricultural finance of a small ryot is usually met by the agricultural bank, the Government undertaking in a few cases finances of depressed class tenants societies by grant of agricultural loans. The professional money-lender is not yet replaced by any systematized banking in rural areas. The Imperial Bank of India finances tradesmen and solvent agriculturists.

2. The practice in this district is that the producer or the middleman conveys his produce to the nearest market and sells it to the local commission agent and godown-keepers who live on profiteering and exploiting the producer.

It is time to organise stores and sales co-operative societies for marketing the produce and for its sale on co-operative basis so as to eliminate the middleman and his profiteering business. But the necessary co-operative education and business capacity are wanting and the initiative must for the present be forthcoming from the educated non-official bodies or from Government.

3. (a) to (c) The value of good lands in this district grown with different kinds of important crops may be estimated as follows:—

Lands grown with wet paddy	2,000 to 2,500 per acre on the average.
Do. with turmeric ..	2,500 to 3,000 "
Do. with groundnut crop	300 to 500 "
Do. with cotton ..	200 to 300 "

The values of lands are affected by the following circumstances prevailing in each locality:—

- (1) Vicinity of lands to canals, tanks or other irrigation facilities.
- (2) Vicinity of lands to roads, donkas and other communications.
- (3) Distance of lands to inhabited villages and railway stations.
- (4) Nature of the soil of the lands, its repairs by manuring, etc.
- (5) Competition of ryots for the cultivation of land.
- (6) Solvency and financial stability of the owner.
- (7) Nature of crops grown on the land.
- (8) General condition of the rainfall during the year.
- (9) Favourable condition of export to other districts and provinces due to failure of monsoons there.

It is generally the lands of poor soil that are brought to Government auction for non-payment of revenue. Value of lands sold in court auction will ordinarily be less than what it may fetch by private negotiation as the lands in that case will be sold subject to mortgages, previous debts and other encumbrances involving civil litigation, delay and court expenses.

4. The "Hindu Mitakshara law" conferring equal right and enjoyment of the ancestral properties of a Hindu family to all the male undivided members of a joint family is in force in this Presidency. As such, any member of a joint Hindu family cannot independently mortgage, sell or otherwise dispose of his ancestral properties without the consent of his co-parceners. For this purpose he must first effect partition of his individual share of his family property before he disposes of or mortgages. Again, the rights of a Hindu widow are very limited. She cannot mortgage or sell her husband's property without the written consent of her husband or his legal heirs. In the case of minors also the guardian has limited rights in respect of the disposal of his properties except for legal debts previously incurred by the minor's father. These are some of the legal impediments in the mortgage or disposal of the agricultural holdings in the district.

It is highly desirable to open agricultural and commercial mortgage branch banks in all central and important villages and towns providing facilities for agriculturists for credit on the security of lands or standing crops or personal security, as the case may be, at a favourable working rate of interest.

The maintenance of a record of rights of each individual member of a joint Hindu family in respect of his ancestral properties and subdivision and partition of his share of lands on ground with permanent demarcation and corresponding entries in revenue records will avoid disputes and counter-claims by parties.

5. (a) to (i) Debt is incurred for purposes mentioned in the question as also for construction of houses. The credit is very often worked on jewellery, marriages and unremunerative purchase of clothing and fashionable wear. The peasant debtor does not know the uses and functions of credit and becomes a helpless wreck in the misuse of his credit on litigation and liquor and licentious living. The debt is largely due to professional money-lenders and in some measure to co-operative banks.

The rate of interest generally charged in this district is 12 per cent per annum varying according to the needs of the borrower, his financial resources, etc., and is lent on promissory notes ranging over three years and also on mortgage bonds for a period not exceeding five to ten years.

The payment of debts is usually enforced at the time of harvest season by taking over at the prevailing market rate the produce of the borrower remaining in excess of his requirements for the ensuing year.

The process of the landed property passing on to the hands of the creditor is developing so rapidly that it takes away from the actual purchaser the incentive to produce more and more efficiently.

6. The supplemental industries which help the small ryot are the following:—

(1) Weaving and tanning.

(2) Poultry farming, manure gathering.

(3) Cattle breeding, carpentry.

(4) Masonry and vegetable growing in backyards and *cheris*.

(5) Fuel making and quarrying industries which could be organized and fostered through the mechanism of a co-operative society. Able-bodied men, if trained in these industries, will be earning members of the families and women useful partners in building up the industries. The experiment of starting one or other of these industries in different centres of the district through co-operative organisation may be tried but the initiative and capital, neither of which the men could supply, for a start, must be forthcoming from a central co-operative bank in the shape of a co-operative loan with all the attendant risks of short or non-payment in the event of possible failures. The labour of men in a selected area is an asset to the industry which co-operative effort sets up. These industries are so closely allied to agriculture and farming that the genius of the peasant is so well fitted to handle these industries that their success as a source of supplementary income to the family is practically certain.

7. The present difficulty of the co-operative bank is in affording co-operative credit to the individual peasant borrower on short-term loans for his agricultural needs just at the time when he wants it. The elaborate machinery of inspectorial staff and supervising unions is often a source of delay and by the time the loan reaches a ryot he will have no use for it.

II.—Indigenous banking.

Indigenous banking has not made any marked progress in this province. For one thing the scientific principles of banking are not understood and there is not the necessary trained staff to keep the books and conduct business on modern lines. Private banking is more full of prejudices than principles.

6. The rates of interest are heavy in cash and the produce from the borrower is purchased by the creditor at the latter's quotation. I do not believe that any education in the rates of interest confers substantial benefits on the agricultural community as that would lead to a definite resort to heavy borrowings for uneconomic purposes and encouragement of thriftless habits.

III.—Investment habit and attraction of capital.

There are adequate banking sources in the district, e.g., the Imperial Bank and the co-operative bank. These are also sources of investment. Postal savings bank is popular among officials. There are also co-operative thrift societies to encourage saving habit among the poorer lot. But the peasant neither borrows nor invests in these organizations, the village money-lender being his immediate bank. The rich man buries his capital and investment in land is becoming increasingly popular among all classes.

It is innate in human nature to divert capital into ornaments of gold for personal decorations and the Indian ryot is a glaring example of this wasteful habit.

3. The Indian ryot has no ultimate use for the moneys which come into his hands from any source except to keep his body and soul together.

Interlending among the agriculturists subject to usual rates of interest does occur in some instances. Surplus money in a prosperous year is divided between jewellery and land investment.

5. The banking and investment habit in India is admittedly slow. The prime cause for this defect is in their philosophical outlook (of renunciation). The business capacity, initiative, enterprise, lively interest in an undertaking, scientific training and education in business methods which are the striking features of Western commerce may be cultivated on Indian soil in the wake of better opportunities for training, education and practical coaching.

**Written evidence of M.R.Ry. K. SREENIVASA RAO Garu,
Chairman, the Municipal Council, Hindupur.**

1.—Agricultural credit and credit facilities for small industries.

1. There is no recognized system worth the name by which the agriculturist obtains his finance except perhaps the few amounts under the *takurai* and the co-operative loans. He is generally allowed to shift for himself and he tries to tap all possible sources for getting his finances. The larger portion of his requirements is secured from the village money-lenders who are also generally the middlemen dealers and merchants in the produce raised from his fields. He makes no difference between the various amounts required for his needs nor does he bestow any thought as to the productivity of the loan or otherwise. Failure of monsoons is a common feature and the want of other irrigation facilities always results in failures of crops and compels him to borrow as much as he could to maintain himself, his family and his cattle from year to year. He is generally indebted beyond his repaying capacity.

Interest on his borrowings is generally charged from 18 per cent to 36 per cent and the period allowed to him by the lender is till such time as the interest accumulates to such a high figure as to make him feel doubtful as to the sufficiency of the security pledged for the loan.

The transactions generally begin as a sort of running account without any kind of security or even any document to evidence the same and as they develop the grip of the lender is tightened and the borrower is then compelled to secure the loan by a pro-note or by the pledge of jewels or other movable property such as his cattle, implements, etc. When matters grow worse and when the lender is sure of his hold on the borrower he induces or insists on the mortgage of his lands and houses. After this stage it may be safely presumed that the agriculturist has borrowed more than he can conveniently repay. Such cases are, unfortunately, too many in our district and until some satisfactory solution for their salvation is found and applied, I am not hopeful of impressing them effectively with any suggestions for improvement in other directions.

More than the rate of interest charged on such loans, the other conditions sometimes written and sometimes agreed to orally are more horrible.

The part played by the Government or the co-operative societies through their loans is very small as compared with the village money-lender and it is perhaps due to the way in which the former bodies issue their loans with due caution and collect them more vigorously. The Imperial Bank, the joint stock banks or indigenous banks do not generally finance the agriculturist direct, for his farm yard operations. They advance loans on the security of produce or on forward contracts when it is harvested and passes to the stage of marketing which is generally undertaken through the merchants in urban areas.

The only remedy that is possible is the improvement of the economic position of the ryot by making him produce more and teaching him by constant education, and also due control where necessary, thrift being exercised by all possible means.

2. Co-operative loan and sale societies, if properly organized and managed, will in due course develop themselves into pools of co-operative effort. The tendency for their hasty organization at this stage should be controlled. Pools of merchants or other dealers will weaken the position of the agriculturist still more and should be discouraged or prohibited. Except in the few cases where the public are connected with some banks within their easy reach, the facilities available for internal remittances are only through postal money orders and insured letters. Even where bank drafts are available, large amounts are generally sent through postal insured covers in half notes to save the bank commission. The banks must be widespread and their commission may be reduced to a nominal amount. The net work of co-operative societies from the village society to the provincial bank, if properly made use of, is the best way of improving the

internal remittances through cheques, drafts, bills and hundis. The stamp duty on hundis may be abolished altogether or reduced to a nominal amount.

The Hindupur Co-operative Town Bank is doing a great service in accepting hundis and drafts issued by its members for collection from outside stations and pays the proceeds on realization. They are doing this business satisfactorily and their attempts may be improved by securing them the necessary facilities for the same. There are a number of well-managed co-operative banks and societies in almost every taluk headquarters and also in many important villages and their services can be utilized for the improvement of this business with advantage and cheapness.

Merchants and commission agents also issue their own hundis and drafts and accept hundis and drafts drawn by others for being used as their remittances at the place of the drawees. In such cases they either discount the drafts outright or agree to pay on realization. Railway receipts and bill of costs are also generally enclosed with the hundis.

4. In any scheme of land mortgage banks intended to provide the long-term needs of the ryot it is essential that provision should invariably be made to advance under due control to the ryots a sum sufficiently large to effectively start them on their business. The advances so made should be sufficient not only to relieve them of their existing debts but also to leave a surplus to serve as the initial capital with which to improve their lands and ensure increased returns. It is also imperative that the period of repayments should be so arranged as not to compel the ryot to have recourse to further borrowing from any other source or sell the lands and other property, to repay his instalments in the land mortgage bank. The loan should be recovered in small dribbles from the margin of profits realized by him from his lands by spreading it over a very large number of years.

We are told that even in countries like France, Ireland, Denmark and the United States of America where the economic position of the ryot is decidedly much better and his ways of production are much improved, he is expected to repay towards his long-term mortgage loan about 3 to 7 per cent only of the loan borrowed including the principal and interest.

The latest scheme of the land mortgage banks in our province approved by the Government provides only for about twenty years' time and the borrower is expected to pay towards his interest charges alone about 9 per cent. Apparently it is beyond the capacity of the borrower to repay punctually at this rate without recourse to further borrowings. The main objection to reduce the rate of interest or increase the period of repayment is that the land mortgage banks will not be able to raise its funds for a longer period or at a lower rate of interest to allow lending at more reduced rates. Necessary steps should therefore be taken to create the required supply to meet the demand and not attempt to cut the demand according to the supply as otherwise the success of the scheme has to be doubted. If sufficient funds from private sources could not be secured at lower rates for longer periods than are now contemplated, it is the duty of the State to come forward with a liberal policy of supplying the necessary funds at a nominal or no interest, especially in the initial stages. The State loans may carry a rate of interest on a graded scale after allowing it free for a few years.

Provision should also be made to grant extensions for repayments in years when the ryot could not raise any crops for reasons beyond his control such as floods, famine and pestilence, such extended instalments being made repayable at the end of the period granted for the loans.

The funds required for the land mortgage banks should be raised through debentures guaranteed by the State and also subscribed by them to a limit of half the extent. The rate of interest to be paid to private investors may be arranged according to the supply available but the investment of the Government should be free for the first four or five years and then increase on a graded scale. The borrowers also should be charged proportionately on a graded scale so as to make it possible for the sum to be repaid with the net income on the lands for principal and interest included. The Government may secure its interest by putting in its representatives on the managing bodies and taking sufficient safeguards to step into the shoes of the bank as soon as any mismanagement is manifested.

7. The Imperial Bank of India has granted overdraft and cash credit accommodation to all the co-operative central banks and to a few town banks for being used as their fluid resources and for their short-term loans business. A flat rate of 6½ per cent per annum is generally charged as interest on sums drawn. If the facilities for remittances to and from these accounts can be arranged through the Government treasuries and sub-treasuries wherever there are no branches of the Imperial Bank of India to the town banks also as in the case of central banks, it will be a substantial help to the co-operative banks. It is also desirable to connect all well-managed and efficient taluk headquarters societies with the provincial co-operative bank, directly for purposes of improving their banking operations.

Joint stock and indigenous banks have no dealings with the co-operative banks except perhaps in rare cases where they use the co-operative banks for depositing their surplus amounts if any. But no portion of the funds of a co-operative bank is allowed except with the special sanction of the Registrar to be invested in any joint stock or indigenous bank. There is no competition in our district between the co-operative banks and the joint stock banks.

Short-term capital in co-operative banks is secured in sufficient quantity and there is no difficulty about it. There is at present much difficulty about long-term capital and it is expected to be removed after the formation of the land mortgage banks. The amount of extra capital required for financing the co-operative movement if it has to embrace all the deserving persons in their areas and finance them for all their needs must go up to a very large figure. Based on a rough estimate in respect of a typical village, the present capital of the movement should be increased to at least 30 to 40 times.

Further to the concessions now enjoyed by the co-operative movement, the various concessions recommended by the Royal Commission on Agriculture may with advantage be secured for the movement. Besides the inclusion of the debentures issued by the provincial co-operative banks and the land mortgage banks in the list of trustee securities and the guarantee of interest, direct State aid is also essential in the initial stages to solve the question of long-term capital. The State should advance a large proportion of the funds required (as in the case of the American Federal Farm Board) and even be prepared to advance the capital with a nominal or no interest.

III.—Investment habit and attraction of capital.

1. Postal savings banks, co-operative societies and nidhis are the only institutions in our district besides the purchase of lands, houses and ornaments, for encouraging savings and investment habits in small men. Post offices, being few and far between, are not within the easy reach of villagers. Nidhis are also generally situated only in taluk headquarters and are not easily accessible to villagers. Co-operative societies, though organised with the main object of encouraging thrift and savings in their members, are almost a failure in this direction. They have not as yet created the necessary confidence in the villagers to trust them with their investments. The formation of central banks for financing these societies has also tended to make the latter depend more on outside help than learning the habit of self-help. Even in matters of education, supervision and inspection, these societies exhibit a state of helplessness rather than self-help and independence.

4. The effect of the abolition of stamp duty on cheques has been to induce a number of small investors to make use of them in large numbers. The very idea of drawing a cheque carries with it a feeling that the drawer has something to his credit in his bank and every time a withdrawal is so made he is sure of calculating what his balance sheet is and how he should further manage his expenditure according to his balance. This is the practical way of teaching thrift to persons especially of small means. Any amount of theoretical propaganda without the practical side of it will be of no use. An ounce of fact is better than a ton of talk. A cheque drawn on a good bank creates some sort of respectful feeling in the payee also and induces him for further relations, be they mercantile or otherwise.

A free use of cheques is now made by professional men and merchants living in urban centres in the close proximity of banks only. Much more than the spread of vernacular scripts in banks, it is necessary to establish a network of good and stable banks within the easy reach of every villager,

if not in every village. Until this is done, the tendency of people to invest their surpluses if any, on gold or lands cannot be prevented, as, at present, though not economically sound, these are the only methods of safe investments available which can be readily converted into cash either by sale or by pledge.

5. It is true that the banking habit in India is of very slow growth but the habit of investment is firmly established though in its own way.

The slow growth in banking is due to want of facilities near at hand and the absence of banks nearby. A large majority of people are too poor and their incomes are very low and as such they will not be able to save enough for investing in banks.

The few, that are able to save something, are not slow to invest but they too owing to the absence of banks near at hand or due to their ignorance invest on unproductive undertakings such as the purchase of ornaments, etc. Some of them use their savings in lending to their fellow ryots or to their tenants and labourers or invest on lands and their improvements.

Purchase of lands and ornaments is also made even with borrowed money at high rates of interest. The argument that is advanced by such people when questioned about the wisdom of such undertakings is that by this method they are saved the capital, by liquidating the borrowed amount in small dribblets every month from their earnings and that this consideration is enough for them to neglect the apparent loss of interest on their borrowed amount.

In conclusion, I wish to impress upon the Committee that any improvement in banking in India cannot be considered as satisfactory unless and until it spreads into every small village and serves the needs of the rural ryots who are known to be 80 per cent. of the total population and it is they who require the utmost attention in financial matters. Banks with top heavy establishment charges cannot survive in villages at the present stage of their development.

The only way of reaching them satisfactorily must therefore be only through a network of well organized genuine co-operative societies based on their true co-operative ideals of self-help, thrift and self-respect.

శ్రీరామజయం.

No. _____ Dated _____ 19 _____

R. VENKATESAIAH & BROTHERS,
Groundnut Merchants and Commission Agents,
HINDUPUR.

మంరా||రా||శ్రీ, _____ గారికి.

హిందూపురం, ఆర్. వెంకటేశయ్య అండు బ్రదర్స్ వారి దండములు, సాం||
_____ రా||రా||_____

అర్డర్ కు చెల్లించేలాగున ను _____ అక్షరాల _____ కు
యిదే కుండిగా వ్రాయించినాముగాన యీ కుండి తెచ్చినవారి ట్రాభటికాణ విశా
రించి నూపాయిలు _____ చెల్లించి యీ కుండి క్రింద చెల్లి వ్రాయించుకొని
వావసు తీసుకోవరెన కుండి వితారం చాలా నాజుకు గనుక మీలు జరచుకు అడ్డి
చెప్పకుండా చెల్లింపవరను.

చిత్తగించవరను.

Rs. _____

దస్కు.కు.

(Translation.)

Victory to Sri Rama.

No. _____

Dated _____ 19 .

R. VENKATESAIAH & BROTHERS,
Groundnut Merchants & Commission Agents,
HINDUPUR.

To

M.R.Ry. Garu, .

We, R. Venkatesaiah & Brothers, after making our salutations, inform you that we are sending you this hundi to pay the sum of Rs. in words Rupees to the order of M.R.Ry. of So, please make kind enquiries of the bearer of this hundi, pay Rs., get entry of the payment at the bottom of this hundi and take back the same. As the hundi is one of a delicate nature, the amount should be paid without any objection whatever.

Rs.

Yours, etc.,

Signature.

శ్రీ తిరుపతి వెంకటేశ్వరస్వామి సహాయం.

No. _____

Hindupur, _____ 19 .

రాజమాన్య రాజపూజారులయిన రాజేశ్వరీ,

గారికి.

గోరంట్ల వెంకటేశయ్య అ.డు బ్రదర్స్ దండములు త||

రాజేశ్వరీ, _____ గారి ఆర్డరుకు
యివ్వగలములకు రూ. _____ అక్షరాల _____ కు
యిజ్జీ వుండిగా వ్రాయించినాము గనుక వచ్చినట్టుగానే చెల్లించి మాకాతాను ఖర్చు
వ్రాయించి యిందులపైన చెల్లు వ్రాయించుకొని వాపసు పొందవలెను.

చిత్తగించవలెను.

దరికని.

Rs. _____

(Translation.)

With the help of God Sri Venkateswara of Tirupati.

No. _____

Hindupur, _____ 19 .

To

M.R.Ry. Garu,

We, Gorantla Venkatesaiah & Brothers, after making salutations, inform you that we have sent you this hundi to pay to the order of M.R.Ry. the sum of Rs., in words Rupees So, please pay the same immediately after it comes to you, debit it to our account and take it back after obtaining entry in this hundi in token of the payment.

At sight.

Rs.

Yours, etc.,

Signature.

శ్రీరామజయం.

HINDUPUR,

No. _____

Dated _____ 19 .

DONTI VENKATESIAH SETTY & BROS.,

Nut Merchants.

రాజ్రి, _____ గారికి.

హిందూపురం, వక్కలు అంగడి, దొంతి వెంకటేశయ్య కెట్టి అండు బ్రదర్సు
 దండములు. యిదివరకు శ్రీమం మీ శ్రీమములు వ్రాయించకోరుచున్నాము. ఇప్పుడు
 వ్రాయడం యీమంటే తాము మాకు యివ్వవలసిన రూపాయలకుగాను
 _____ గారికిగాని ఆర్డరుగాని చెల్లించేలాగున రూపాయలు
 యిదే బరాతంగా వ్రాశియిచ్చినాము. ఈ బరాతము చూచిన _____ దినములకులోగా
 రూపాయలు చెల్లించి యిందుపైన చెల్లు వ్రాయించుకొని సదం బరాతము తీసుకొన
 వలసినది.

Rs. _____

Signature.

(Translation.)

Victory to Sri Itama.

No. _____

Hindupur,

Dated _____ 19 .

DONTI VENKATESIAH SETTY & BROTHERS,

Nut Merchants.

To .

M.R.Ry. Garu,

We, Donti Venkatesiah & Brothers, Nut Merchants, Hindupur, make
 salutations to you. We are doing well and wish you to let us know about
 your welfare. What we now write to you is that since you owe to us an
 amount of Rs., we are sending you this draft for Rs. to
 be paid to or the order of M.R.Ry. You should pay
 the amount within days' sight of the draft, obtain entry to that
 effect on it and take back the same.

Rs.

Signature.

శ్రీరామజయం.

No. _____

Dated _____ 19 .

KATTA ANNIAHGARI GUNDIAH CHETTI & SONS,
General Merchants and Commission Agents,
HINDUPUR.

మ॥రా॥రా॥శ్రీ, _____ గారికి.

పాపమాపురం, కట్టా అణ్ణయ్యగారి గుండయ్య శెట్టి అండ్ సన్స్ వారు _____

త॥ _____ రా॥రా॥ _____

ఆర్డరుకు మీరు చెల్లించేలాగున రూ _____ అక్షరాల _____
 కు ఇదే బరాతంగా వ్రాసినాము గనక ఈ బరాతం చూచినట్లుగానే
 టికాణా విచారించి సూపాయలు చెల్లించి యీ బరాతంక్రింద చెల్లుతో వాపు పొంద
 వరను.

చిత్తగించవరను.

Rs. _____

దస్కత్తు.

(Translation.)

Victory to Sri Rama.

No. _____

Dated _____ 10 .

KATTA ANNIAHGARI GUNDIAH CHETTI & SONS,
General Merchants & Commission Agents,
HINDUPUR.

To

M.R.Ry. Garu,

We, Katta Anniahgari Gundiah Chetti & Sons, send this draft to you
 to pay to the order of M.R.Ry. Rs., in words
 Rupees So, pay the amount at sight of this draft,
 after making kind enquiries of the bearer and take back the draft with the
 entry for the payment of the amount at the bottom of the same.

Rs.

Yours, etc.,

Signatures.

నం.

హిందూపురం కో-ఆపరేటివ్ టౌన్ బ్యాంకు లిమిటెడ్.

హిందూపురం, _____ 19 .

మ||రా||శ్రీ, _____ గారికి,
 లేక వారి అర్హుడు దాతాయలు _____ ఆదేశము _____
 ప్రసాదు _____ చెల్లించవలెను.

రూ. _____

సంతకము.

(Translation.)

No. _____

THE HINDUPUR CO-OPERATIVE TOWN BANK LTD.

Hindupur, _____ 19 .

Pay to or the order of M.R.Ry. the sum of Rs.
 annas and pies

Rs.

 Signature.

Written evidence of M.R.Ry. A. R. VENKETASAMY NAIDU
Avargal, Member, Managing Committee, the Madura-
Ramnad Chamber of Commerce, Madura.

I.—Agricultural credit and credit facilities for small industries.

Raw produce.—This Presidency is regularly exporting to foreign countries groundnut kernels, cotton, senna, fibre, nut vomica, divi divi, tamarind, turmeric, copra, pepper, ginger, lemon grass oil, coffee, tea, rubber, etc., and also

Raw materials.—Skins and hides, etc.

Sales are made against offers from foreign countries for some articles, for forward shipment from Madras and its sub-ports. Some articles are sent to some countries like the United Kingdom for sale by public auction for account and risk of the sellers.

Documents for goods sold, and/or sent by consignment system by the sellers and/or factors and/or by agents are negotiated through the exchange banks in Madras, Tuticorin, etc.

Advances are made by the sellers in India to the dealers as soon as the goods are tendered in the respective Buying Agencies, and if there is any difference in quality, the value of the same is deducted from the accounts of the parties concerned, as soon as the total quantity contracted for is delivered. This applies to the firms who buy goods for delivery in their respective godowns, according to the samples.

Letters of credit are opened through exchange banks in the case of the goods sold to the oversea buyers for full value of the goods, or for 75/90 per cent of the value of the goods, and the balance is remitted to the sellers as soon as the goods are taken delivery of by the buyers abroad. When the buyers find that the quality is bad, or not according to the sample or not a fair average quality of the season, debit notes are sent through the bankers through whom the bills are negotiated against letter of credits opened in favour of the sellers, if the amount exceeds the advances made, and/or deducted from the accounts due to the sellers by the oversea buyers, since the sales are made, subject to arbitration in the United Kingdom, Europe, etc.

Now the agriculturists who are not well educated in the art of selling, generally look upon the intermediaries to dispose of their goods. Further the agriculturists are not capitalists. Most of them have invested their funds in lands. The intermediaries then with the assistance of the agriculturists and others open some co-operative banks in the respective villages. They represent as selling agents, apart from doing business for their own account, for the agriculturists, and enter into forward contracts with the buying agencies of the oversea firms with or without branches in India, and make advances to the ryots (agriculturists) from time to time for buying seeds, family expenses, cattle-feeding, tilling kists, and for other expenses. There are also some ryots who are financially strong. (They never used to go to the co-operative banks to obtain loan.) The advances are mostly made by the middlemen, who are also the directors of the co-operative banks subject to the condition that the goods—produce cultivated in their respective lands—will have to be sold only through them. In some cases offers also are taken from the dealers, and on the basis of same contracts are entered into with the buying agencies and with the buyers in the foreign countries, subject to the condition that the agriculturists are to be responsible for the loss in weight, quality, etc. Some of the middlemen take up the responsibility, when they sell the goods in their own name. Sales are made c.i.f. and/or c.i. Goods are to be delivered at the respective ports in India and abroad. Now the Indians have opened selling and buying agents in the United Kingdom and the Continent. They have also opened a Chamber of Commerce, under the name of *The Indian Chamber of Commerce, in Great Britain, London*. The merchants—I mean

Indian merchants—who sell goods subject to the Arbitration in London, will have to appoint this Chamber as their representative. The cost of the goods sold on c.i.f. terms is paid in *sterling prices*. In India silver is the standard currency. Before the outbreak of hostilities in Europe, the value of the produce, sold in sterling rates, was paid by the exchange banks at 1s 4d per rupee, i.e., Rs. 15 per sovereign. It is paid now at 1s 6d per rupee, i.e., Rs. 13-5-4 per sovereign. The difference is a loss to the agriculturists. Therefore *Indian Exchange Banks* will have to be opened by the Indians, with or without other nations as partners, in rupee currency, if gold will not become the standard currency in India, so that the Indian shippers may negotiate the Bills direct with their Indian friends (buyers) abroad through their Indian banks in rupee currency. This will not lead to unnecessary fear in the exchange value, as far as the goods sold on first cost.

Steamship companies.—Now some of the produces sold to the Continents are invoiced on c.i.f. terms, insurance to be covered by the buyers, freight payable at the port of destination in gold currency. In order to encourage the Indian trade, freight also will have to be booked in rupee currency if gold will not become the standard coin. In India, steamship companies will have to be floated so that the goods may be sent in by Indian and other shippers to foreign countries. The natives who are residing in the coast, I mean in the Coromandal coast from Binlipatam to Dhanuskoti/Tuticorin, are all capable (seamen) boatmen. Their sons may be trained for the post of engineers, officers and commanders. For this the assistance of the banks are required. Since most of the produce of the agriculturists are exported to foreign countries, they will have to collect shares in the villages to start steamship companies, and the amount collected will have to be placed in the Indian banks. The Indian banks must also arrange with the shippers and the agriculturists to open *Fire and Marine Insurance Companies*, since the produce of the merchants are sold on c.i.f. terms.

**Written evidence of M.R.Ry. G. L. NARAYANA Avargal,
Director, Local Co-operative Union, Peddapuram.**

I.—Agricultural credit and credit facilities for small industries.

1. Generally almost all the agriculturists go in for loans for cultivation purposes. These loans are taken from co-operative societies, bankers, Marwaris and merchants either on pro-notes or gold pledge or on contract to sell at a fixed rate the produce got from the field. Petty agriculturists belonging to low classes in addition to the interest also pay produce at the rate of one kuncham or half per every rupee loan which is called "Naniu" system. Even for capital and permanent improvements these are the sources wherefrom an agriculturist gets money.

The rates of interest vary from 9 per cent to 18 per cent and the period of repayment ranges from three months to twelve months. But in the case of loans under (b) and (c) classes the period ranges from three years to ten years. Co-operative banks, bankers, professional money-lenders, merchants and dealers are the institutions wherefrom the agriculturist gets his loan. The rest are not useful for cultivation purposes.

For paddy cultivation the expenses range from Rs. 50 to Rs. 80; for sugarcane from Rs. 200 to Rs. 250 per acre and for dry cultivation from Rs. 25 to Rs. 50 per acre. Except Government and co-operative institutions the remaining institutions are profit-making ones. Their main object is to earn money and anything done is in the interest of the self. There is no co-ordination among the institutions and it may not be possible to bring it inasmuch as the interests of the various institutions are just like the North Pole and the South Pole. The Townsend Committee has, I believe, rightly classified the loans as short-term, intermediate and long-term. The co-operative institutions are capable of advancing loans only for the first two classes of loans considering the resources from which the funds are tapped by them. For capital and permanent improvements of the lands long-term credit is needed. To meet this need a central land mortgage bank for the Presidency to collect the money and land mortgage banks for a group of villages may be a workable scheme. The central land mortgage bank is the financial bank to all the land mortgage banks in the Presidency. To finance the central land mortgage bank the funds available in the companies started under the Life Assurance Companies Act may be made available to purchase the debentures issued by the central land mortgage bank. Ways and means may be chalked out to meet this end. Improving the existing co-operative institutions, starting of more institutions and giving long-term credit facilities by a network of land mortgage banks as suggested above may be the only possible means to improve the condition of the agriculturist.

2. Except rich ryots almost all the ryots sell away their crop as it becomes ready for sale. The merchants who have already taken on contract from the ryots or some other merchants purchase the produce, store it and sell it when the market rates are favourable. The ryot feeling dire need for money is not able to keep the produce till the market rates are favourable and has to sell it as the stock becomes ready. Such produce as is stored by the merchants is disposed of by them either as foreign export or for local consumption or for export to other parts in India. I advocate the system of joint purchase and sale in villages through co-operative institutions. The system is new and people, being ignorant of the advantages, are not falling into the groove. For bringing the system into operation crop loans are to be freely given in co-operative societies. Propaganda work has to be done. It is a system worth experimenting. It is sure to work after due propaganda. The present facilities in marketing produce are not in any way advantageous to the ryot. The middleman, the merchant, enjoys the fruits of storing stock. The system of joint purchase and sale in co-operative societies is the only advantageous method to the ryot.

Different kinds of financial agencies assist the merchant class by lending money on pledge of the produce. The help rendered is not to the advantage of the ryot but only to earn money in the shape of interest. These facilities are in no way beneficial to the ryot. The Imperial Bank of

India and other commercial banks offer credit facilities to the merchants and cheques are allowed to be drawn on them to the extent of the accommodated credit. Hundis are also in force and they are generally given to the extent of the credit they have with the firm or merchant.

3. In the delta where there is irrigation by means of the canal system the value of wet land per acre ranges from Rs. 1,000 to Rs. 2,500; and of dry land per acre ranges from Rs. 100 to Rs. 600. The principle of demand and supply acts. When there are rich neighbours for the land the value of the land increases. When there is competition among the ryots in the village who take the land for lease the value of the land rises. Irrigation facilities also increase the value of the land. In the case of (a) and (b) sales the value of the land decreases unless there is competition due to individual grudges. In the case of (c) proper value can be got if attempts are made on right lines.

4. There are very few land mortgage banks in the Presidency and they too are of recent growth and in the experimental stage. The first financial aid is given by Government for these institutions. The total capital required is raised by way of debentures, a moiety of which are purchased by the Government and the rest are sold to individuals by the influence of the workers of the bank. Difficulties are being felt in taking mortgage of the lands. The difficulty arises with regard to the ownership both at the time of taking mortgage and after the death of the member who pledges the land.

There must be a central land mortgage bank for the Presidency. It must be the financing agency. The reserve fund of all co-operative institutions and the funds from the companies started under the Life Assurance Act should be pooled in it. Ways and means may be adopted to do it. By means of deposits and sale of debenture bonds, funds may be raised. For a group of villages one bank may be started. The settlement of the ownership of the land should be made at the time of granting loan. For the sale of land in case of recovery of the loan by that method, special facilities have to be given to the bank for which ways and means have to be chalked out to meet the legal claims or obstructions.

The central land mortgage bank is the only agency which receives money and from which the remaining land mortgage banks draw funds. The said central land mortgage bank receives the money taking advice of the Government departmental head from time to time. This departmental check is quite sufficient to secure Government against unnecessary loss. For some time to come till the system works on sound lines people will hesitate to invest moneys unless there is Government guarantee. At least a margin of 2 per cent is required between the lending rate and the borrowing rate to meet the expenses.

5. An estimate of the existing indebtedness of the agricultural class can be accurately prepared by the land mortgage banks which are proposed to be formed for a group of villages. The workers of the said bank are men who have got first-hand information regarding the ryots in those villages. All possible information can be got correctly from them and they are the best people to gather it. Agriculturists have no other supplemental industries. Petty agriculturists have supplemental industries such as driving carts for hire and dairy farming. The ryot requires such supplemental industries as can be useful to his family. Handspinning may be one of those industries useful to the ryot. They may be started on a co-operative basis. The capital required can be arranged through co-operative societies.

7. The Imperial Bank or any other bank accommodates credit to the co-operative banks and lends moneys to them at the rate of interest prevailing in the market. For giving long-term credit the co-operative societies are not fit and a new agency to be started has already been suggested.

Co-operative movement has up to now embraced only a certain per cent of the population. With the development of the movement in the villages more money is required into the movement. The money to the extent that is got from other sources by the ryots is the money that is required as capital by the societies. The aim of the movement should be "Each village, each co-operative society" and all people should be members of a co-operative society in a village. Co-operative institutions should be exempted from payment of all taxes either to Government or local bodies.

II.—Indigenous banking.

The definition of an indigenous bank given in the questionnaire carefully excludes all those banks which are being conducted on sound lines and which command the fullest confidence of the depositors. Only two kinds of banking which are at present commonly formed in each and every village come within the purview of the definition. One is a money-lender whose chief occupation is usury. The other is a joint firm where two or more persons deposit their capitals with a view to increase them by a collective effort. The corrupt and foul methods adopted by these two kinds of banks in swindling money from their victims cannot be overestimated. Before proceeding to answer your questionnaire we feel it incumbent upon us to offer these few general remarks. We firmly believe that the chief purpose intended to be served by the co-operative movement is to cut off the operations of these banks.

1. So far as our district is concerned, these banks are discharging only one duty which is lending money on land mortgage, promissory note, gold pledge and crop loans. In most cases, these bankers frequently invest their capitals in trade whereas in other cases the chief business transacted is that of money-lending.

2. No doubt, any man who wants to start some trade can obtain the necessary amount from these bankers but it is only when he gives some of his stable property as mortgage for the debt at heavy rates of interest. The same is the case with industry. The difficulties under which the poor ryot is labouring for obtaining money need no description. In short, the assistance rendered by these banks can be said to be a highly pernicious one.

3. (a) The amount of capital invested in any bank varies largely with the capacity of the shareholders.

(b) Same as (a).

(c) The expenses do not amount to much in all these cases. They employ a clerk to keep the accounts and one or two agents who receive some commission for settling the terms between the borrower and the lender. Frequently a room or a house is taken for rent in the bazaar. But sometimes in recovering their debts they will be driven to the necessity of spending enormous sums of money in law courts.

(d) The relations between one indigenous bank and another are never harmonious. They can be better described as those of spite and jealousy. They co-operate with one another only in gathering information about the property and status of their clients.

4. Hundis are not popular in this locality. The form of a promissory note is the same as "I promise to pay on demand the bearer." If a deposit is made in a firm, a promissory note is written in favour of the depositor.

5. The rates of interest on deposits vary from 8 per cent to 10 per cent per annum.

6. The rates of interest are clearly exorbitant. They will range from 15 to 18 per cent. By stimulating people's interest in the co-operative movement and by encouraging them to establish more societies of an unlimited type, the rates could be brought down. Beyond all doubt, the ryot will be relieved of a great burden and can produce greater results if he can procure money at reduced rates of interest.

7. Naturally there is.

No doubt the present civil courts offer them some protection but this involves some waste of money.

Nil.

Sound inasmuch as their own welfare is concerned.

8. Their attitude towards the introduction of any new measures will be always hostile.

10. They refuse more demands on the first ground than on the second.

11. They must be encouraged to deposit big sums of money in any bank which is started with the avowed motive of helping the agriculturists and industries. We think the competition can be crossed over by educating the borrowers on the aims and objects of these banks.

12. No; they will never contribute their funds, even if they are surplus, to any bank.

III.—Investment habit and attraction of capital.

1. (a) Savings bank, co-operative banks and cash certificates and some other banks (registered and conducted on a firm basis).

(d) No.

(c) Indian women have by nature an uncontrollable craving for ornamentation and by their compulsion, men also invest large sums of money on jewels, of course, having the only consolation that it is a kind of saving.

2. They are popular among the educated class. The present rates require revision. Terms of issue can be retained. Savings banks afford all facilities in localities where they are formed but in villages they are not. Generally educated people who live by employment as clerks, officers or teachers resort to such forms of investment.

3. No. We are not in favour of advising the agriculturist to invest his small amount in securities. In most cases, such moneys are invested on lands and houses which fetch annual rents. In other cases they lend it on mortgages or pledges.

4. The cheque habit is a strange thing to thousands of people. Use of vernacular scripts in banking will popularize the movement in a short time.

5. Yes. The prime causes are lack of education in the masses and want of propaganda on the subject of banking. This propaganda can be easily and effectively carried out through the supervising unions and district federations.

The opening of new branches has had its effect though a feeble one.

Written evidence of M.B.Ry. C. CHAKRAVARTHI AYYANGAR
Avargal, B.A., B.L., Vakil and Legal Adviser,
Vellore Sasvatha Nidhi, Vellore.

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturist in my province is under a great disability to obtain finance for his cultivation purposes. The agriculturist in my province can be divided into three classes: (a) large land-holders—these are above want and they can depend upon their own resources; (b) small land-holders and (c) cultivators who till the lands of others for a small share in the produce in return.

The (b) and (c) classes are always under a disability.

(a) For cultivation expenses they always go to the village banker (money-lender) or to the Nattukottai Chetti or the Marwari. These people charge a very high rate of interest up to 4 per cent per month.

But if the money is to be returned in kind (namely, produce of land) the rate of interest comes up to 50 per cent.

(b) For capital expenses the intelligent people take loans from the Government; yet the Government loan is not much favoured as the time taken in getting the same is extremely long (nay, in many cases it takes two or three years).

Then there are others who take loans from the village money-lenders and lose the land itself in the long run without being able to discharge the debt.

(c) *Special needs.*—To meet the special demands the agriculturist thinks of the lender who knows his qualifications and applies for loans to him only.

The rate of interest is from 6 per cent to 24 per cent per annum. The period is not generally fixed. The nature of the security is land and house property. Standing crop is not generally taken as security.

The Imperial Bank does not help the agriculturist at all in any sense. It helps only the commercial class.

The Government also to a very large extent is not able to help the agriculturist. Though the Government is to a large measure maintained by the landowners, the Government does not in turn help them in matters of finance in times of need.

The joint stock banks.—They also are doing business on the lines of the Imperial Bank and they do not encourage the agriculturist in his hard times.

The co-operative banks.—These also do not answer the real need of the agriculturist. The time taken in getting the loan is nearly six months and the money also can be had only by those who have some influence with the panchayatdars.

The real person who lends to the agriculturist is the village money-lender. For my district, I think, about 10 to 15 lakhs of rupees will be sufficient.

There is no system at all now in existence to help the agriculturist. He is always in want and so kept in want by those around him. The defects are: (1) small loans are not granted; (2) if so granted, the lender wants immovable sureties and (3) the high rate of interest.

The remedy suggested.—The rural co-operative banks must be increased. Each man is to be entitled as a matter of course on personal credit five times the amount of land-tax he pays to the Government. This will be a first charge on the land. Such loans must be granted on the date of the application.

2. The principal crops are sold then and there by the owner either to the village banker or in the nearest market.

The produce may be purchased by the co-operative bank or money may be lent thereon.

Banks and bankers do not generally buy and sell for internal trade. If they buy, they do so for a foreign market. Up-country merchants buy and sell for the internal and foreign markets.

Internal remittance.—This is always done in payments in notes by insurance. Bills are commonly used only by rich commercial banks. It is the hundi system which is in vogue among the country and district parts.

In my part the hundi is discounted only by the Imperial Bank and in some cases by the Multans.

The railway receipt is not an instrument of ownership because the railway exempts itself under the risk note. Hence no money is advanced on these receipts.

The Government can greatly help the agriculturist if the co-operative bank is well equipped to market and sell the produce.

3. *The value for dry lands* ranges from Rs. 25 to Rs. 500 per acre and for wet lands from Rs. 200 to Rs. 4,000 per acre.

The factors which affect the value—

- (1) the soil,
- (2) the irrigation facility,
- (3) the railway communication and
- (4) the population in the area.

The land sold for land revenue and for court-decree always gets a reduced price as there is no warranty of title. The lands sold by private negotiation gets the highest price.

4. No such impediment to mortgage lands. In my district there is the "Vellore Sasvatha Nidhi" giving long-term loans to landowners and there is the land mortgage bank also in Ambur.

The Vellore Sasvatha Nidhi works on a co-operative basis giving loans only to its members. The capital is raised partly by shares and partly by amounts advanced by the directors.

The real sufferer is the villager. The village is the unit. Each village must have a bank. Its capital is to be raised partly by subscription and partly by loans from the central banks. The loans must be long-term loans (say, 25 years). The rural banks are to draw their capital from the villagers. Thus, suppose that in a village the revenue tax is Rs. 1,000. The capital for this bank to be drawn from the villagers must not be less than Rs. 2,000 to be paid by the members in ten years. The Government may also lend to such banks from the central banks.

(a) *Record of rights and title of ownership.*—As the things stand at present it cannot be definitely said who is the owner of a particular bit of land. The law bearing on this question and the possible inclusion of many persons as heirs under the Hindu law and Muhammadan law make it absolutely difficult for any bank to lend amounts on lands and houses. No doubt, it will largely minimize the difficulties of the banker if a certificate of ownership is introduced wherein any change in such ownership may be entered then and there.

(b) The land mortgage bank must be empowered to sell in case of non-payment with a liberty to the mortgagor to dispute the amount due before the sale is held.

(c) The land mortgage bank is to be exempted from paying search-fees to the Registration Department.

The working capital for the mortgage banks.—The capital must come to rural banks from (1) compulsory subscriptions, (2) deposits, (3) central banks and (4) debenture bonds. At least for some time to come, unless the Government guarantees both for principal and interest in the case of such bonds, they will not be sold to realize a good and workable amount. The Government will not suffer any loss only in case they engage paid servants to look after the affairs of the bank as in the case of Imperial Bank. The idea of honorary work must vanish. On persons doing work without pay the Government has no hold and they do not bestow as much attention as the case really requires. Further, all honorary workers

are so aged that they are unable to do any hard work. Before loans are advanced from the central bank the financial position and status of the rural bank are to be well scrutinized and then only the money is to be advanced from the central bank.

The land mortgage banks may give 5 to 6 per cent per annum for subscribers and depositors and may charge 8 to 9 per cent when they lend. A small fraction of the amount lent is to be returned every year by the debtor.

5. It may be fairly taken as a correct estimate that the indebtedness of a village will be from 10 to 15 times the tax due by it to the Government. If the revenue tax is Rs. 1,000 for a village, then the indebtedness will be Rs. 10,000 to Rs. 15,000.

In the majority of cases the debt is always advanced on mortgages of land. The houses may be included as an additional security.

The reasons for incurring debts.—Debts are incurred for—

- (a) payment of earlier debts,
- (b) marriages,
- (c) famine,
- (d) taxes,
- (e) sinking wells and
- (f) education.

These debts are largely due to professional money-lenders.

The rate of interest is from 6 to 24 per cent per annum.

In some cases the interest is taken in advance and if the repayment is not made as promised then the debt is sought to be recovered through courts.

The farmers are not turned into tenants. But they are not able to pay their debts and hence sell away their lands and this in the long run will lead of course to inefficient cultivators.

6. *Hand spinning* is done by a separate class who are not accustomed to cultivate the lands.

Rice milling and dairy farming give work daily to a few.

Garden produce can be attempted by all. But the cultivator has no space for the same.

Cotton ginning is a thriving industry in some districts.

Cottage industries may be introduced to supplement the income of the villager such as the metal works, spinning and weaving and carpentry and gardening.

These enterprises must be run on co-operative basis by the aid of the rural bank and the finance is to come out of such banks.

6. (a) This is answered in paragraph 6 above.

7. The Imperial Bank and the central co-operative bank seem to have some transactions.

There is not much love lost between the other banks and the co-operative banks.

The capital for the co-operative society is not sufficient. Many persons do not come forward to invest in them. Further, the rural society is not empowered to receive deposits.

If the rural society is empowered to take deposits on term then there will be enough of money for long and short-term loans.

There is no competition at all between the co-operative bank and other joint stock banks.

If the money deposited in the rural society is exempted from income-tax then the rural society will be sure to get deposits to a large extent.

II.—Indigenous banking.

1. They lend money on pro-notes and hundis and discount hundis also.

2. The indigenous bankers give short-term loans only and their constituents are generally traders. The agriculturists are not favoured by them.

3. (a) The amount of capital invested in the indigenous banking in my district will be about Rs. 75 lakhs.

(b) The volume of business done by them will be about four times the above amount (namely, Rs. 300 lakhs).

(c) The expenses incurred by one bank will be about Rs. 1,000 to Rs. 1,500.

(d) The relation between one indigenous bank and another is cordial.

The Imperial Bank also is more willing to lend to an indigenous bank than to an agriculturist. There is not much work done between the co-operative banks and the indigenous banks.

4. In my district only one form of hundi is used by the indigenous banks.

If they are willing at times they take promissory notes also for the amount lent.

5. The indigenous banker always lends on hundis. Very often he wants a surety for the amount lent. He has no running accounts on cash credit system. But he has the other method. He allows the loan to be repaid in instalments.

The indigenous banks and bankers borrow among themselves and, further, they easily borrow from the Imperial Bank on cash credit system. Further, their loans are short-term loans. Hence, they easily meet their demand.

Very rarely they receive deposits. For such deposits the interest they pay is from 6 to 9 per cent per annum.

6. The agriculturist has to pay now from 18 to 24 per cent per annum for interest if in money. If it is in kind it will come to 36 per cent to 50 per cent.

The rates can be brought down only if the rural bank is able to help the agriculturist by lending money in times of need and advancing loans on his produce.

The reduction of rates would do good to the agriculturist in two ways. If there is an efficient rural compulsory bank he is forced to save something every year. Further, his standard of living will improve and he will not be made poorer day by day.

7. There is a strong prejudice against the indigenous bankers in my locality in the sense that no man who has borrowed from them has ever become prosperous as they charge high rates of interest.

These bankers are well protected in law. Even as it is, the bankers will not go out of your house if you do not pay them on the due date. Two or three of their servants are asked to hang about you wherever you go until and unless you pay the amount due by you. If any more facility is extended to them, then the rowdism which they will adopt will be intolerable.

8. This class of bankers will be really serviceable to the community only if they are made to lend money at a reasonable rate of interest. The rate of interest to be charged must be fixed by the Government with a penalty of forfeiture if more interest is charged or demanded.

If the rural society and then the central co-operative banks are improved these indigenous banks will be slowly absorbed by them.

These banks cannot be consolidated because they are the creatures of a single person and owned and manned and managed by him as he likes. If there is any chance, they can only be improved in the sense that the rate of interest demanded by them may be lowered by an Act of the legislature.

The attitude of the indigenous banking community is very plain and naked. They will not allow the liberty which they enjoyed till now to be curtailed.

9. The indigenous banker never loses his capital in any event. He gets on an average 15 per cent on his capital.

10. They are not able to meet all demands. It is partly due to the want of capital and in some cases it is due to the unacceptable nature of the security.

11. My fear is that the indigenous bankers cannot be linked together. They prosper because it is a one man's rule and trade. If they are linked with the money market by any artificial ties, I think the system may eventually lead to a large swindling.

My suggestion is that there must be a central co-operative bank in each district with rural bankers (which may be conveniently grouped for inspection). The credit and solvency of these banks ought to be guaranteed by Government.

In the long run the indigenous banker will be slowly swallowed by such district banks.

12. The money in the hands of the indigenous banker is in great demand only in certain seasons.

If these amounts are invested in the district central banks, they may benefit the district.

III.—Investment habit and attraction of capital.

1. The banking resources are—

- (a) deposits by railways;
- (b) deposits by Government;
- (c) deposits by merchants and by wealthy people; and
- (d) money raised by share capital.

The savings bank system must be introduced in the rural society and attractive interest paid even on small deposits even for a day.

The rural public has no facility for investment as things stand at present.

2. The postal cash certificate is not very popular because the period is fixed and the interest paid is very low. It can be made popular if the above disabilities are removed.

Postal savings banks are also not very popular because the repayment is not allowed by cheques and the interest paid is very low.

It is only the educated classes that go to postal certificates and savings banks.

I do not think that there is much competition between the Government and the other bankers on account of the attractive postal rates.

3. It is very rarely that persons in the district centres purchase Government securities.

The money got by the sale of produce either goes to discharge the previous debt or goes to purchase new adjacent lands. Till then the agriculturist goes on adding to his purse if he is able to save.

Farmers lend to their neighbours who are their friends. The rate of interest is always from 12 to 18 per cent per annum payable on demand.

4. The introduction of cheque in the banking world facilitates easy payment to the drawer through his agent.

The educated and the merchant population use cheques.

Vernacular may be used with advantage to the general public.

5. Banking and investment habit is slow on account of poverty and crude suspicion. The newly opened branches and the Imperial Bank in the mufassal centres are really useful only to the merchants who do business on a large scale. They do not advance small loans to petty traders. Hence the petty trader is still at the mercy of the indigenous banker.

Written evidence of a subordinate of the Deputy Accountant-General, Posts and Telegraphs, Madras.

I.—Agricultural credit and credit facilities for small industries.

This province is admittedly a poor one compared with other Presidencies like Bombay and Bengal. But it cannot be said that there is no scope for the further development of agriculture and industry in this Presidency. The question is whether the monetary resources available have been fully mobilized for the purpose. The fact that the Imperial Bank of India has been able to open more branches and the development of co-operative and joint stock banking in the past years would seem to support the view that there is still room for the development of banking institutions. If the earning capacity of the people is to be increased, it can only be effected by the organization of joint stock banks for agricultural and industrial development. That there is a wide field in this respect admits of no doubt. For this purpose there will have to be more co-operation between the Government and the people, and between the European and Indian capitalists. We shall have to utilize more and more of our raw materials for manufacturing purposes by establishing factories, mills and farms on modern lines. There should be at least one technological institute for this Presidency. It is understood that proposals to convert the local Engineering College into a technological institute are under consideration. I wish that the idea should materialize soon.

III.—Investment habit and attraction of capital.

2. As regards cash certificates, I submit below a statement showing the value realized by sales from the date of introduction of the cash certificate scheme which will give an idea as to how far the cash certificates are popular. In the absence of distribution of the statistics by races and professions or occupations, it is not possible to say how much is held by Europeans and how much by Indians and which classes have resorted to this mode of investment. With a view to promote thrift among Government servants I would suggest that subscription to the General Provident Fund be made obligatory in the case of Indians drawing Rs. 100 and more as in the case of Anglo-Indians.

4. Another suggestion I would make is that payment of Government servants may be made by cheques in the case of those who are drawing Rs. 200 and more. The idea is that Government servants should set an example to others in the matter of keeping banking accounts. I have one further suggestion to make. I wish that both the Government and the people should carry on extensive propaganda in order to attract capital which is now shy. Capitalists, especially Indian, will have to be educated to a sense of patriotism so that they may not look for immediate returns for the money they invest, i.e., until the concerns yield profit and classes wedded to hoarding habit should be weaned away by inspiring confidence in joint stock undertakings which of course is of slow growth and is bound to increase with the organization of banking on sound lines.

Statistics showing the numbers and the value of cash certificates issued from the inception of the scheme.

		10	20	50	100	500	1,000	Total value realized by sales.	
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	A.
1917-18	..	63,194	18,269	9,038	2,3170	1,037	..	37,08,855	8
1918-19	..	1,24,913	36,621	10,991	13,942	1,777	..	38,44,410	12
1919-20	..	15,116	1,698	748	1,905	645	..	6,06,019	0
1920-21	..	962	282	407	1,805	382	..	2,90,113	8
1921-22	..	291	206	371	851	311	..	2,42,606	0
1922-23	..	226	176	377	999	356	..	2,54,556	8
1923-24	..	2,520	1,164	1,643	5,181	3,971	1,718	32,64,172	8
1924-25	..	2,029	2,024	1,991	5,812	2,249	2,192	30,43,515	0
1925-26	..	4,268	4,696	3,767	9,872	3,402	5,374	62,90,362	8
1926-27	..	3,940	3,434	3,060	8,460	2,718	5,497	61,71,387	0
1927-28	..	3,688	3,267	2,899	6,995	2,146	3,090	40,35,746	0
1928-29	..	2,563	2,775	2,805	5,913	1,744	2,411	32,76,544	0

Written evidence of M.R. By. K. RAMANATHAN CHETTIYAR
Avargal, B.A., B.L., Advocate, 20, North Mada Street,
Mylapore.

II.—Indigenous banking.

General.

Lord Peckover, perhaps the most prominent of the English indigenous bankers, rightly observed that there was a personal relationship between the private banker and borrower, which was of immense advantage to both of them. The banker understood the status of the customer and his needs; and the customer easily knew the solvency of the banker. Knowing personally the borrowers' position and credit, the private banker lends to people who could not be reached by the joint stock bank. The personal relationship is absent when a borrower deals with an institution. The banker lends to the farmer, the trader and the manufacturer. He helps them all in their needs and is usually respected by all.

2. One of the most important of the indigenous banking communities in India is the Nattukottai Chetti community known also as the Nagarathar community. The Nagarathar banker is held in esteem and there are many in Burma and in India who have a high regard for them. Like other bankers they trade in money and are "Money merchants"; they borrow, take deposits, lend for interest and discount. They charge a mahamai and vindas on overdrawings or deposits; they also charge a brokerage for adathi business. They usually charge from 9 to 24 per cent. The smaller amounts carry higher rates of interest. They do business from out of their capital, the deposits placed with them and their borrowings from other members of the community. Some also borrow from the Imperial Bank of India and other joint stock banks. On their capital they may generally get 9 to 12 per cent interest. The rate of interest charged on customers is not heavy and they may be in a position to reduce it if the Imperial Bank also does so.

3. The Imperial Bank may reduce the rate of interest; with the enormous privilege it enjoys it certainly can do so. This will lower the rate of interest of other banks as well as the rate of the indigenous banks.

4. The Imperial Bank of India must be quickly Indianized. The process now is slow. This will also be a means to spread the banking idea in India.

5. The Imperial Bank or the Government may also give scholarships to students of banking communities, for studies in banking in European countries. To meet the requirements the bank may bind them to serve them for a certain number of years. One is amazed at the changes in banking that have taken place in England within the last 10 or 15 years and it may do well to send students of communities which have taken to banking to England for training. It may also help the quick Indianization of the Imperial Bank.

6. The indigenous banking ought to be protected and given facilities for its growth and betterment. The one way of helping it would be by discouraging the starting of branches for the joint stock banks and for the Imperial Bank. These institutions should not be allowed to compete with the private banker. In a bank with many branches the proportion of capital and reserve to the current liabilities becomes small and this is unsafe from the point of view of the investors. The dangers of reduced competition, of monopoly and of centralizing funds in a few hands in one city would be the result of establishing branches. The Americans resent the idea of the National banks establishing branches in various parts of the State. In England also the Government looked with disfavour the suggestion of the amalgamation of the joint stock banks known as the "Big Five".

7. The deposits in, or the borrowings of, the private banks which have registered themselves may be guaranteed to a certain extent by the Imperial Bank on certain conditions. The Imperial Bank may take such security of immovable property or other assets from the bankers and limit the extent of their borrowings or deposits. This will create in the public a greater confidence on private bankers and the depositors would be able to get a higher rate of interest. The Government must also encourage such banks by some special privileges.

8. The Government must insist on the private bankers to maintain a reserve fund to avert any crisis. This can be done by the Government showing some special treatment to the banks that hold a reserve fund. The Imperial Bank also may reduce the rate of interest for such banks.

9. The enactments of the legislatures may be so amended as to give greater facilities for banking. The provision for filing summary suits may be extended to the mufassal. In towns other than Presidency towns the creation of an equitable mortgage may be made possible.

10. The preparation of a record of rights is highly essential. It will help the borrower to give sound security for his loans if and when needed. It must be made obligatory that every transaction in an interest in immovable property should be entered in the office of the record of rights, and the copy of the same should be the record of title of ownership. This may avoid endless litigation.

11. It is essential that there must be an institute of indigenous bankers for every Province. The membership should be thrown open to all the bankers who pay income-tax; the amount of income-tax for making a banker eligible for membership should be very low. They will be in a position to devise ways and means to protect their interest and better their position. They may be given the power to hold examinations in banking or train students for the same. The auditors and income-tax officers and bank officials may be recruited from those who have creditably passed the examinations held by the institution. The association may be also given the privilege to elect its representatives to the Legislative Council and to the Assembly, where it may be possible for them to watch and effectively safeguard the interests of private bankers and of other bankers as well. In England there are nearly five well-known institutions which look after the interest of those connected with banking. It is very essential that there must be at least one such institution in each of the provinces.

12. The most important step for the development of Indian banking, private or joint stock, would be to place restrictions on non-Indian exchange banks or at least for the present to restrict the expansion of foreign banks. It may be made compulsory that every bank or branch should be registered only on satisfying two conditions—(1) that more than half the number of shares should be held by Indians, and (2) that more than half the number of local directors should be Indians. The same regulations *mutatis mutandis* may be made applicable to insurance companies also.

**Written evidence of G. R. HILSON, Esq., B.Sc.,
Officiating Director of Agriculture, Madras**

I.—Agricultural credit and credit facilities for small industries.

1. I would refer you to the report issued by the Indian Central Cotton Committee on the investigation of the "Financing and marketing of the cotton crop in the northern and western districts" and to the special loan rules printed as annexure I.

2. I enclose a note on the Seed societies in the Coimbatore district—Vide annexure II.

6. To my mind the correct way to attack the problem of providing employment during slack seasons and of raising the standard of living is to reduce the length of the slack seasons. This can be done by making it possible to grow crops in any season of the year, as is done wherever in this Presidency the system of agriculture is what is termed "Garden cultivation" or "the growing of irrigated dry crops." There is an enormous economic waste of water in this Presidency and at the same time there are areas of the country with enormous possibilities if only there were a reliable source of water.

My prescription for the salvation of the agriculturist in this Presidency contains the following ingredients:—

- (a) A supply of good drinking water to every village.
- (b) A supply of irrigation water, to enable a proportion of the holding to be cropped with what are termed garden crops.
- (c) Consolidation of holdings.
- (d) Limitation of partibility.

Even without (b) I think the tendency under the new conditions would be for the cultivator to live on his holding. With (b) the rate of change would be quicker.

Given that the cultivator lives on his holding, he can look after his cattle properly, improve his method of making cattle-manure and improve the fertility of his land. With bore-hole latrines he will have an additional source of organic manure which will make an enormous difference to the returns he obtains from his holding especially if he can grow garden crops.

A change in the angle of vision is needed. Irrigation schemes should not automatically mean swamp paddy cultivation. Swamp paddy cultivation should be relegated to such areas as will grow nothing else. All irrigation schemes should be primarily devised for the growing of crops which do not require that the land should be continually under water. At the same time, the cultivator should change his point of view and realize that his first care should be his cattle and his supply of cattle manure. If he attends to that, the other things will follow.

Annexure I.

Special Loan Rules.

In exercise of the powers conferred by section 4 of the Agriculturists Loans Act, 1884, and by section 10 of the Land Improvement Loans Act, 1883, and in supersession of the rules published in Notification No. 203 at pages 498 to 508 of Part I of the *Fort St. George Gazette*, dated 9th May 1916, His Excellency the Governor in Council is pleased to make the following rules:—

Note.—In these rules the terms "Director" and "Department" mean the "Director of Industries" and the "Department of Industries" with reference to a pumping installation and the "Director of Agriculture" and the "Agricultural Department" with reference to agricultural machinery or plant.

I. Any owner or occupier of arable land desiring to obtain a loan for erecting or completing a pumping installation or for the purchase of agricultural machinery or plant, and for carrying out any improvement to his land in connexion with such installations or in connexion with the use of such machinery or plant, may apply to the Director.

Explanation.—For purposes of this rule, improvements connected with a pumping installation include digging a well, laying out and improving the land to be irrigated by the installation. And the term “agricultural machinery or plant” includes machinery or plant used for purely agricultural operations, such as ploughing, harvesting, threshing, and for such preparation of agricultural produce as is usually carried out by the producer, such as cane crushing. Machinery for dealing with the agricultural produce of others on a large scale, such as rice mills, cotton ginneries and groundnut decorticators, is not included.

Note.—“There is no objection to the grant of loans to persons who, in the hope of obtaining State loans, have purchased and erected pumping installations with money borrowed elsewhere on condition of the amount being repaid after obtaining the Government loan, provided that there is clear proof of the amount having been borrowed for the purpose of purchasing and erecting a pumping installation and in anticipation of obtaining a State loan.”

II. Every application for a loan under these rules must be made in writing in Form I hereto annexed and must contain a declaration signed by the applicant that the statements made therein regarding the nature and extent of the encumbrances on the property offered as security are true to the best of his information and belief and that he believes that there are no other encumbrances on the property. The applicant shall, at the same time, supply the Director, by entry in the column of remarks or otherwise, with information on the following points, viz.:—

(a) In case the loan sanctioned is less than the amount required for the scheme, whether the applicant is prepared to supplement the loan by private capital to the extent necessary;

(b) the estimated total cost of the proposed scheme and the probable time that will be occupied in its execution.

III. Upon receipt of an application for a loan the Director shall cause a local inquiry to be made into the correctness of the entries in the application form, the nature and adequacy of the security offered and the general feasibility of the scheme. Whenever such inquiry involves a local inspection by an officer of the Agricultural Department or of the Department of Industries, such inspection fees as are prescribed in the rules of that department must be prepaid by the applicant on pain of rejection of his application. The Director shall also consider any objection which may be raised to the grant of the loan. If the erection of a pumping installation is involved, notices of the proposed loan and work should be affixed at the village chavadi and should be sent to the Collector and Executive Engineer of the district concerned.

IV. When the applicant for a loan is an occupancy ryot as defined in the Madras Estates Land Act, 1908, and proposes to furnish as security for the loan the occupancy right which he claims to possess in any land, the Director shall send a notice of the application by registered post to the usual address of the landholder.

V. Every such notice shall specify the sum applied for, the nature of the scheme, and the nature of the security proposed for the loan and shall inform the landholder that, if he desires to make any objections to the loan, he must, within thirty days after service of notice, signify them in writing to the Director.

VI. The landholder or his local agent or manager may object to the grant of the loan on the following grounds and on no others:—

(i) That the applicant has no occupancy right in the land offered as security,

(ii) that by reason of the improvement affecting another ryot's holding the landholder has a prior right to make such improvements.

If the landholder or his local agent or manager does not, within the time specified in rule V, signify his objection on any of the above grounds, or if the Director, after considering any objection made, decides that the applicant has occupancy right and that he is entitled to make the improvements, and finds that the value of the occupancy right either by itself or taken jointly with other security furnished by the applicant is sufficient for the loan, he may either sanction it or forward the records of the case for the sanction of the Local Government under rule VIII.

VII. No loan shall be granted unless the value of the security offered is equal to the amount of the loan applied for. The nature of the security to be required shall be as follows:—

(a) *In the case of pumping installations.*—The land to be irrigated which must ordinarily include the site of the installation unless this is land classed as poramboke.

In estimating the value of the applicant's interest in the land the probable value of the land after the improvements have been carried out may be taken into account.

If this value is not equal to the amount of the loan, then one or more of the items specified under (b) below must be offered as collateral security.

(b) *In all other cases one or more of the following items:—*

(1) Lands belonging to the applicant;

(2) lands belonging to other persons who are willing to become his sureties;

(3) two-thirds of the value of the machinery or plant for the purchase of which the loan is granted, or of other machinery or plant owned by the applicant: Provided that, if the installation which is offered as collateral security is not fully the property of the borrower, as, for instance, if it has been purchased on the hire purchase system, any balance due upon that installation shall first be paid off out of the loan amount before any further sum is disbursed, and the officer disbursing the loan shall satisfy himself that the installation has been fully paid for before making any further disbursement of the loan granted;

(4) personal security of the applicant or the joint personal security of the applicant and one or more other persons, provided that such security does not exceed Rs. 250.

VIII. The Director shall be competent to sanction loans up to Rs. 10,000 in each case. Applications for loans exceeding Rs. 10,000 should be submitted for the sanction of Government.

IX. (1) If, after local inquiry and such further investigation as may be deemed necessary, the Director is satisfied that the loan may be granted, he shall at once issue an order granting the loan. In the case of loans exceeding Rs. 10,000 the loan order will be issued by the Director after obtaining the sanction of the Government under rule VIII. The order shall be signed by the applicant in token that he understands and agrees to the conditions contained therein. The security bond to be taken, when collateral security is offered, shall be in Form IV.

(2) The applicant shall execute an agreement authorizing the Director to proceed with the purchase and erection of the plant and agreeing to treat as a loan actually paid to him the amount spent by the Director from time to time on the purchase and erection of the plant and debited to his account. The Director will then proceed to purchase and erect or cause to be erected the plant, handing over to the applicant any balance that may remain after payment of the cost of purchase and erection and of the departmental charges for inspection, estimating, purchasing and erecting the plant. These fees cover the cost of supervision until the plant is handed over. If an inspection fee has previously been paid, the charge is reduced by the amount thereof. To encourage expedition, the Director has power to allow a rebate up to 1 per cent on erection charges if the work is rapidly completed, provided that the Director may, if the applicant so desires, permit him to purchase himself such plant as the Director may approve, and advance to him out of the loan amount such sum as may be necessary to make the purchase. The plant shall, however, be entrusted to the Director for erection.

X. The rate of interest charged on loans shall be 7½ per cent per annum.

XI. Interest shall accrue from such dates as the Director may fix with due regard to the time at which the loan is actually drawn for expenditure.

XII. (a) The loans shall be repayable by fixed annual instalments in discharge of both the principal and interest. The date for the payment of each annual instalment shall be fixed so as to coincide, if possible, with the date of payment of one of the land revenue kists of the district and the first instalment shall be payable not less than twelve months and not more than eighteen months from the date of the last debit under rule IX in the borrower's account.

When the interval between the date of the last debit and the date fixed for the payment of the first instalment exceeds twelve months, simple interest shall be calculated for the period in excess of twelve months, and shall be recovered along with the first instalment of repayment.

(b) The amount of the instalments and the period within which the loan shall be repaid shall be fixed by the Director who shall have regard to the probable durability of the improvement proposed to be effected with the loan, to the value or sufficiency of the security given and to the convenience of the borrower and the circumstances of the case; but the period so fixed shall not exceed the maxima shown below:—

(i) When the loan is secured on landed property—20 years.

(ii) When the loan is secured on machinery or plant—5 years.

(iii) When the loan is secured on personal security—2 years.

When the loan is secured partly on one form of security and partly on another, then the maximum period of repayment shall be so fixed that the portion of the loan secured by items (ii) or (iii) above is repaid, with interest, in five or two years, respectively.

Example.—(1) A loan of Rs. 5,000 is secured by the mortgaging of lands worth Rs. 3,000 and machinery worth Rs. 3,000 which can be taken as security for two-thirds of the value, i.e., for Rs. 2,000.

The maximum period of repayment allowable is seventeen years, the annual instalment being Rs. 485-15-0. At this rate of repayment the sum of Rs. 2,000 secured on the machinery will be repaid, with interest, within five years.

(2) A loan of Rs. 300 is secured by the mortgage of machinery worth Rs. 300 pledged for two-thirds of its value, i.e., Rs. 200, and on personal security of Rs. 100. The maximum period of repayment allowable is five years, the annual instalments being Rs. 71-11-3. At this rate of repayment the sum of Rs. 100 secured by the personal security will be repaid with interest within two years.

(c) Recoveries of all instalments of loans granted under these rules shall be made by the Collector as if they had been granted by himself under the revised general rules framed under section 10 of the Land Improvement Loans Act of 1883 and section 4 of the Agriculturists Loans Act, 1884.

XIII. Nothing in rule XII shall prevent or debar a borrower from repaying at any time a larger sum than the annual instalment or from discharging the whole loan in a single repayment.

Repayments other than the payment on the due date of the prescribed annual instalment may be classed as follows:—

(i) *Payment on the due date of a sum in excess of the equated payment.*—Such excess payment should at once be credited in reduction of principal, the number of future instalments being, if necessary, reduced but no postponement of subsequent instalments being allowed. Nor shall any alteration in the amount of subsequent instalments be allowed except in the final instalment and when such alteration is necessary to adjust the balance due.

(ii) *Payment before the due date of the equated payment.*—Such payment should be treated as having been made on the due date.

(iii) *Voluntary payment before the due date of any amount without reference to the equated payment due at the end of the period.*—Unless the borrower specifically requires such a payment to be regarded as, in whole or part, an advance payment of class (ii), it should be taken wholly in reduction of principal on the principle laid down in article 129 (d) of the Civil Account Code, Volume I, the borrower being still liable for the equated payment on the due date.

XIV. All payments of instalment of loans and interests under these rules may be made either at the treasury of the taluk or to the village officer of the village in which the land to be improved or the agricultural machinery or plant is situated. The Collector may, if he sees fit, authorize repayment at any other Government treasury.

XV. The Collector may, in special circumstances and after consulting the Director, extend the time for the repayment of any instalment up to a maximum of twelve months.

When any such extension is granted the following scale of penalties should be charged in lieu of penal interest:—

Balance of unpaid annual instalment of Rs. 10 and below.	2 for each month or portion of a month.
Above Rs. 10 up to Rs. 25.	4 "
" " 25 up to Rs. 50.	8 "
" " 50 up to Rs. 100.	12 "
For each additional Rs. 100 or fraction thereof.	12 "

The Collector may also, after consulting the Director, remit penalties and permit the suspension of repayment of any instalment in adverse circumstances.

XVI. If the Director is at any time satisfied that any person who has received a loan under these rules has failed to perform any of the conditions subject to which the loan was made, he may, after recording his reasons in writing, pass an order directing recovery forthwith of the balances of the loan with any interest payable thereon and all costs as an arrear of land revenue and shall send a copy of such order to the Collector of the district within which the land is situated and the Collector will proceed to recover the same.

XVII. All loans granted under these rules, all sums of interest due upon such loans and all other sums due to Government in connexion therewith shall be a first charge upon the land offered as security whether principal or collateral and shall, if not duly paid, be recoverable as arrears of land revenue.

XVIII. If the work for which the loan was granted fails owing to default on the part of the department, the Director may, and if the applicant so request, shall submit a full report of all the circumstances of the case to the Government, who will decide whether the whole or any part of the loan shall be remitted or not.

XIX. Until the loan with interest and other charges has been repaid in full, the pumping installation or the agricultural machinery or plant, as the case may be, shall be inspected periodically by the Director who may make or cause to be made, at the cost of the owner, such repairs or renewals as the Director may consider necessary. During this period the applicant shall be required to pay such annual fees for the inspection of the installation, machinery or plant as may be prescribed in the rules of the department.

XX. The Director shall maintain a register in Form V (Part I) of all loans granted under these rules, and the Collector shall maintain a register in Form V (Part II) of all recoveries made in respect of such loans.

XXI. Every loan sanctioned under these rules shall be reported by the Director to the Collector of the district and also to the Accountant-General who will see that the loan is in accordance with the rules and will watch its repayment.

XXII. Nothing in these rules shall prevent any landholder desiring to erect a pumping installation or to purchase agricultural machinery or plant from applying for a loan to the revenue authorities under the revised general rules.

XXIII. Nothing in these rules shall be deemed to affect any power of the Local Government to grant in special cases loans under the Acts on terms other than those hereinbefore prescribed or to affect the terms of any special agreement under which any loan under the Act has been or may hereafter be granted or the terms of any unexpired settlement.

FORM OF APPLICATION FOR LOANS FOR PURPOSES CONNECTED WITH FURNISHING INSTALLATIONS OR THE PURCHASE OF AGRICULTURAL MACHINERY OR PLANT UNDER THE SPECIAL RULES LIAISED UNDER SECTION 10 OF THE LAND IMPROVEMENT LOANS ACT, 1883, AND SECTION 4 OF THE AGRICULTURISTS LOANS ACT, 1884.

1. Name, father's name and residence of applicant

1. Name, father's name and residence of applicant.
2. Amount of loan required.
3. Purpose of the loan.

		Particulars of the land to be benefited, if any.																				
		(1)	Village, survey number and letter; wet or dry.																			
	ACS.	(2)	Extent.																			
	RS.	(3)	Assessment.																			
		(4)	The nature and extent of the applicant's right in the land and whether he is the registered holder and whether the land is in his enjoyment.																			
		(5)	Name.	Rights of others in the land.																		
		(6)	Nature and extent of right whether as co-sharer, mortgagee, etc.																			
		(7)	Survey number.	Security offered. If land																		
	ACS.	(8)	Extent.																			
	RS.	(9)	Assessment.																			
		(10)	In whose name registered.																			
		(11)	Nature of the engine and pump or the agricultural machinery or plant to be mortgaged.																			
		(12)	Name of other person who agrees to offer the land as security and the nature of his right in it.																			
		(13)	Nature and extent of encumbrances on the immovable property, if any, which is offered as collateral security.																			
		(14)	Whether any arrears are due on the land to be benefited or offered as security or by the applicant.																			
		(15)	Proposed time of repayment.																			
		(16)	Remarks.*																			

* (a) In case the loan sanctioned is less than the amount required for the scheme, is the applicant prepared to supplement the loan by private capital to the extent required?

(b) What is the estimated total cost of the proposed scheme and the probable time that will be occupied in its execution?

Notes.—Columns (1) to (10) to be omitted if land is not mortgaged

I, the applicant for the above loan, do hereby solemnly declare that what is stated in the above application regarding the nature and extent of the surety encumbrances on the property offered as security is true to the best of my information and belief and that I believe that there are no other encumbrances on the property.

**Place
Date**

Signature of the applicant.

Annexure II.

Seed societies in Coimbatore district.

The seed societies now to be found in the neighbourhood of Tiruppur and Avanashi in Coimbatore district owe their existence to the fact that the Agricultural Department desired to be in a position to distribute large quantities of seed of certain strains of cotton without being compelled to dissipate its energies in actually cultivating them.

Originally, therefore, these societies were loosely organized groups of cultivators with the common purpose of growing selected strains of Cambodia cotton, and selling the produce in the form of seed-cotton to the Agricultural Department. The department made its own arrangements for ginning and for selling the lint and seed. As an incentive and an aid to the members of these societies to keep to their contract, advances to cover the cost of cultivation were given by the department.

2. This arrangement worked smoothly. It, however, necessitated the locking up of funds which could have been put to better use. It was, therefore, decided to try to enlarge the scope of the societies to cover the collective ginning of seed-cotton and the collective sale of lint. Accordingly, it was arranged that each society should act as a unit, that within a specified short interval of time the members of a given society should bring their produce to a selected ginnery and that, after ginning, the department should take over the seed and help in the sale of the lint. This arrangement has been in force for some time and has worked very satisfactorily. It has lightened the work of the Agricultural Officer concerned and left him freer to attend to other matters. It has set free funds for use for other purposes and it has helped to educate the ryots in regard to the marketing of their cotton. The whole process has in fact been placed on a sounder business footing.

3. The next step taken was to reduce the amount of money given as advances. At first the department was giving advances of Rs. 30 to Rs. 40 per acre, to meet the cost of cultivation. No interest was charged on these advances although they were not recovered until after the sale of the produce. With the expansion of the co-operative credit movement, it was deemed advisable to bring these societies within the purview of this movement in order to enable the cultivators to obtain financial aid at reasonable rates of interest. Some difficulty was experienced in settling how this should be done. Had all the members of the seed societies also been members of the village credit societies, it would have been possible to arrange for a separate committee of the village credit society to handle the cotton business. This, however, was not the case. Several useful members of the seed societies were not members of the village credit society and had strong objections to becoming so. The only course then was to form these seed societies into recognized co-operative societies but on a limited liability basis. Under this arrangement each member pays in a certain amount of share capital, the society as a whole can borrow from a co-operative bank up to three times the amount of money paid in as share capital and it holds itself responsible for seeing that the loan is paid back as soon as the crop is sold. This procedure has been followed and each society is registered as "The . . . Seed Society." The advances now given by the department to members of these societies has been reduced to Rs. 10 per acre. It is hoped that shortly they will be entirely self-dependent in this respect.

4. Another improvement which has been effected, also directed towards introducing sound business methods into the procedure, has to do with the issue of seed by the department to the societies. Up to last year it was the custom to issue seed sufficient to sow the acreage commanded by the society without making any charge. Now the arrangement is, that all issues of seed for sowing purposes shall be repaid by an equivalent amount of seed at the end of the season.

5. Lastly, it has been arranged that any member who wishes to do so, can obtain a loan from the Tiruppur loan and sale society, on producing a receipt showing the amount of lint held for him by the Agricultural Department.

6. Thus, from a very simple beginning, there has been built up an organization which bids fair to make possible the achievement of three eminently desirable objects, firstly the production of good pure seed in large quantities, secondly the provision of cheap financial aid to the cultivator

while his crop is growing and thirdly similar aid between the harvesting of the crop and its sale. The pleasing feature of the whole process is that the cultivators are gradually arriving at a point where they will be able to manage the business themselves. The organization is capable of improvement, but before proceeding to discuss the points where improvement is considered possible it will be well to show clearly the actual details of the working of the present system.

7. The following are the main points which demand attention:—

Signing of indentures.—Indentures are necessary in order to retain some hold on the individual. If for any reason he refuses to deliver his crop or if in order to raise ready money he sells it to a merchant the possibility of recovering the advances given to him is reduced. As the society as a whole is responsible for all advances taken, the members of each society are supposed to look after one another and prevent defaulting. Cases have come to light which show that the members do exercise this supervision. A copy of the indenture in use is appended.

Distribution of seed.

Checking areas.—This is done one to three months after the crop is sown. The Agricultural Demonstrator checks the area of the crop which has been properly cultivated and irrigated. If proper cultivation and irrigation have not been given, no advance is granted. Areas are also checked by the village officers. If there is any discrepancy between his figures and those of the Agricultural Demonstrator, the former's are taken as being correct.

Arranging advances to the societies from the co-operative banks.

General supervision of cultivation, clean-picking, etc.

Arranging for ginning.—This is done by calling for tenders. The contract provides for ginning, insurance, kalasi coolies and the use of sufficient lock-up godowns.

Examination and weighing of seed-cotton.—All lots of produce before being weighed and placed in the godowns are examined. If it is apparent that the cotton has been badly picked or that the lint or seed has been spoilt by bad storage or by being exposed to rain it is rejected. In doubtful cases the lot is kept separate and the seed is subjected to a germination test. A receipt is given for each lot weighed in, but all the different lots of the members of each society are bulked together. The produce of different societies is kept separate. The godowns are locked and sealed by the Agricultural Officer in charge who keeps the keys.

Cleaning and picking before ginning.

Ginning.—When a sufficient amount of seed-cotton has arrived at the ginnery, ginning is begun. Before actually starting, the gins are cleaned to remove all foreign seed and are examined to see that they are set properly.

Sale of lint.—When sufficient lint has been ginned an auction is held. This auction is well advertized and is attended by representatives of the seed societies with instructions as to the price at which the cotton may be allowed to change hands. If the price offered at the auction is unsatisfactory the lint is sold by private tender.

Sale of seed.—The seed is taken over by the department as soon as ginning is finished. It is left to the societies to decide on which day up to the 30th June the price shall be settled. In addition to the rate prevailing on the day chosen a premium of Rs. 8 per 1,000 lb. is paid by the department.

Settlement of advances.—The money obtained by the sale of the lint is received by the officer in charge of the work. It is distributed among the various members in proportion to the amount of seed-cotton delivered by each. From this amount and from the money to be paid for the seed deductions are made to cover all advances and a proportionate share of the cost of ginning and incidental charges. In this matter the Agricultural Officer is aided by the President and Secretary of the Society concerned.

8. The successive strains of Cambodia cotton which have been issued to these societies are No. 10, No. 15, Co. No. 1, and Co. No. 2. The last named is the most recent. It is expected that during the coming season, 1929-30, there will be 4,000 acres under this strain of which about 1,500 will be controlled by seed societies.

Detailed figures for acreage, yields, and prices, illustrative of the activities of these societies during the last five years are shown in a tabular form in the appendix. The figures for yield refer to the main crop only and are below actuals by the amount of damaged produce removed from the bulk. The prices for lint are per candy of 500 lb. and for seed per pothie of 1,000 lb.

9. It is a most excellent feature of these seed societies that the members have at heart a common interest, the successful growing and marketing of their cotton crop. The chief criticisms of these seed societies to be made at present are firstly, that there are not enough of them, and secondly, that their connexion with the loan and sale society is unsatisfactory.

10. It is apparent at once on examining the position that there are too few of these societies.

The area under Cambodia cotton is nearly 400 000 acres, of which about one-half is irrigated and one-half is rainfed. The seed societies are the main source of pure seed of the strain we desire to spread, viz., Co. No. 2, produced by the Cotton Specialist. It is hoped that during the coming season it will be possible to raise the number of seed societies to fifteen and the acreage commanded by them to 1,500 acres. From this area sufficient seed will be produced to sow about 20,000 acres, that is about one-twentieth of the total quantity required. It is impossible for the Agricultural Department to do more at present.

It is, however, very necessary that some action should be taken to improve the situation.

On the cultivator's own showing, the first strain, Co. No. 1, put out by the Cotton Specialist, given an increased yield of from half to one pothie of seed cotton per acre. This represents in cash an increased return of from Rs. 22-8-0 to Rs. 45 per acre. In some cases the increase in yield obtained from this strain is reported to be 14 pothies of seed cotton per acre worth Rs. 67-8-0. The latest strain, Co. No. 2, put out by the Cotton Specialist in 1926-27 gives, out in the district, an increase in yield of half a pothie of seed cotton per acre over Co. No. 1. The increase in yield from this strain will, therefore, be from 1 to 1½ pothies of seed-cotton per acre. This will mean in cash an increased return of Rs. 45 to Rs. 67-8-0 per acre. These figures refer to irrigated Cambodia. If an average figure of Rs. 50 per acre is taken and it is remembered that the area under irrigated Cambodia cotton is 200,000 acres the need for urgent action becomes clear.

11. It is possible that a change in the method of cultivation or the use of a particular manure might give increased returns of this magnitude. It is, however, unlikely that anything else will do so. It is, therefore, most important that until the supply of seed of this strain becomes amply sufficient to bring this increased return within the easy reach of every cultivator who can profit by it, every pound of seed should be made to tell.

Here, attention may be directed to the second criticism, that the connexion between the seed societies and the loan and sale society is unsatisfactory. This will be made clear, if the position be analyzed.

During the cultivation of the crop, the seed societies obtain financial aid to meet cultivation expenses, mainly from a co-operative bank. Presently, the whole of the advances taken for this purpose, will come from this source.

When the crop is harvested, the societies, *as a group*, receive help and advice in the preparation of their crop for the market and in the actual marketing of their crop, from the Agricultural Department. The officers of the department, engaged in this work, in fact act the part of a business manager.

Before the crop is sold, those members of the seed societies, who desire to do so can obtain financial aid from the Tiruppur loan and sale society. Here, this society helps in the work of producing pure seed in quantity.

This society has, however, another function to perform. It offers inducements to individual cultivators to bring their crop in the form of seed cotton to be sold through its agency in the same form. As this society does not undertake ginning it does nothing to help in the production of pure seed. Indeed it may definitely hinder that work if members of seed

societies are persuaded to sell their crop as seed cotton through its agency. Further, in that this society deals with the produce of each man individually it can hardly be said to foster the spirit of co-operation.

If, however, the loan and sale society were composed of representatives of the seed societies; if it employed a business manager wise in the grading, ginning and sale of cotton; and if the seed societies undertook the sale of seed we would have a type design organization which could be brought into being wherever cotton was grown in sufficient quantity.

With such an organization, provision would be made for the distribution and sale of seed in adequate quantities, the timely financing of the growers and the co-operative marketing of lint. Ginning pools would then have no terrors and as the cultivators themselves would put so much pure cotton on the market, buyers of repute would be attracted and the evils of mixing would be avoided.

A further advantage of this organization would be that it could be used to foster a spirit of saving and economy. Loans are obtained on the strength of share capital subscribed. If from the profits obtained the share capital of each member were increased by, say, Rs. 3 per acre per annum, in a few years the share capital would equal the advance now required for cultivation purposes and no loan would be needed.

The final results would be, on the one hand, that the cultivator would be placed in a position to fight his own battles, and on the other hand, that the effectiveness of the Agricultural Officers for propaganda work would be enormously increased.

Statement showing particulars of Cambodia Cotton Seed Farms in Tiruppur and Avanashi centres—VIII Circle.

Name of seed society or union.	Number of members.	Area.	Advance amount.	Yield.				Seed.	Rate at which sold.		Market rate.	
				Kapas.		Lint.			Lint per candy.	Seed per 1,000 lb.	Lint.	Seed.
				Pothies.	lb.	Candies.	lb.					
1924-25.			RS.				LB.	RS.	RS.	RS.	RS.	
Tiruppur centre--												
Perumallur ..	17	263	7,410	333	205	58	272	53,510				
Muttiankinar ..	7			76	192	13	282	12,150				
Pulvapatti ..	3			46	159	7	438	7,845				
				457	56	79	492	73,505				
Karunathampatti centre --												
Tekkallur	300	7,500	240	91	41	167	39,290	300	40	290	32
Karunathampatti ..				54	188	9	244	9,050				
Elachipalayam ..				62	133	10	423	10,250				
				357	162	61	334	58,590				
Avanashi centre--												
Avanahigoundenpalayam ..	..	400	12,000	53	227	9	339	8,475			
Rakipalayam ..				91	223	15	435	14,920				
Avanashilingampalayam and Madathupalayam.				36	140	65	522	64,010	305	40	290	32
				182	90	91	96	87,405				
Total ..	..	963	26,910.	997	58	231	422	219,500			
1925-26.												
Tiruppur centre--												
Perumallur ..	19	140	2,660	295	81	51	354	47,435				
Muttiankinar ..	17	96	1,800	127	123	22	314	20,845				

Statement showing particulars of Cambodia Cotton Seed Farms in Tiruppur and Avanashi centres—VIII Circle—cont.

Name of seed society or union.	Number of members.	Area.	Advance amount.	Yield.				Seed.	Rate at which sold.		Market rate.	
				Kapas.		Lint.			Lint per candy.	Seed per 1,000 lb.	Lint.	Seed.
				Pothies.	lb.	Candies.	lb.					
Avanashi centre—		ACS.	RS.					L.B.	RS.	RS.	RS.	RS.
Madathupalayam ..	11	83	830	178	236	30	382	28,075				
Avanashilingampalayam ..	15	79	790	146	39	24	237	24,107				
Avanashilingampalayam ..	21	83	830	168	116	28	232	27,315				
Velayuthampalayam ..	13	72	720	149	254	25	378	24,210	243	52	230	44
Nelligoundenpalayam ..	51	226	2,260	353	110	60	420	58,825			233	
Vellandipalayam ..	13	51	510	87	57	14	312	14,020				
Elachipalayam ..												
	124	594	5,940	1,094	812	184	1,961	176,552				
1928-29.												
Tiruppur centre—												
Permanallur ..	15	186	1,860	384	11	65	320	63,389				
Mettiankinar ..	21	90	900	116	35	19	445	19,155				
Paluvapatti ..	8	87	870	117	129	19	233	19,692½				
Avanashigoundenpalayam ..	5	63	630	43	148	7	250	7,125				
	49	426	4,260	660	323	112	1,249	109,852½				
Avanashi centre—												
Avanashilingampalayam ..	14	90	900	206	214	35	171	84,170	255	40	237	32
Avanashi-Madathupalayam ..	10	87	870	191	66	32	380	31,404	241			
Madathupalayam ..	12	50	500	78	252	12	478	12,738				
Nelligoundenpalayam ..	16	68	680	127	76	21	337	20,800				
Vellandipalayam ..	55	265	2,650	439	105	74	469	69,600				
Velayuthampalayam ..	20	90	900	127	201	21	258	20,937½				
	127	650	6,500	1,171	914	199	2,088	189,649½				

**Written evidence of M.R.Ry. D. R. BALAJI RAO Avargal,
Secretary, The Indian Bank, Limited, Madras.**

1.—Agricultural credit and credit facilities for small industries.

Most of the agriculturists in the province borrow for paying land revenue and for meeting the expenses during cultivation. They are generally for short periods and are liquidated as soon as crops are harvested. The borrowings on these accounts are from the richer ryots in the villages or from money-lenders or from commission agents; and interest is charged at from 12 to 18 per cent. In some cases, money is obtained by forward sale of crops. The long-term borrowings are rarely for capital improvements, but, usually to pay off prior debts or to meet the deficit due to the increased style of living or to build houses, the investments over which are very often out of proportion to their estate. The Marwari money-lenders usually advance on promissory notes and the local money-lenders on mortgage of properties. Short-term loans are always against pro-notes.

The agriculturists in most of the districts of the province have taken advantage of the system of pledging their produce with the banks in getting the best price for their crops. Many ryots with average holdings buy the produce of the smaller ryots and pledge them to the banks. This is particularly so in the delta taluks in the Circars. In the dry taluks where the ryot is not so well educated and where also there is not much of banking facility, they get advances from the commission merchants through whom they are bound to sell their produce. The commission merchant, besides charging them interest on his advance, charges also a commission on the sales and charges for warehousing and does not always sell to the best advantage of the ryots. The commission merchants obtain their finance from the Imperial Bank of India, other joint stock banks of the locality and also from the Marwaris.

The development of a hundi market and the use of negotiable instruments in financing trade is very backward in the province. It is partly due to the absence of sufficient number of joint stock banks. The indigenous banks are too conservative to undertake this business freely; and the Marwari money-lenders do not like it as it prevents them from changing the rate of interest during the currency of the bills; and the Imperial Bank of India is apathetic. The difference in stamp duty between usance bills and pro-notes has also tended to the popularity of the latter.

The Negotiable Instruments Act is capable of improvements in many respects and unless much of its technicalities are simplified, there is not much chance of their being adopted in business or banking to any considerable extent in places in the mufassal.

The system of joint stock banks and indigenous bankers lending on produce stored in godowns by commission agents and ryots has much developed and is also popular. But the system has not helped the evolution of proper types of warehouses or the centralizing of them in district areas. There is very good scope in several of the districts for trying the operation of licensed warehouses and if the banks working in such areas co-operate, the proposition is bound to succeed. Such a development is very convenient to the banks and beneficial to merchants and will also help in creating central exchanges of different commodities.

In some places there are blocks of godowns which can be grouped together and others built near them. The control may be in a private agency or a limited company or a local body. The municipalities must contribute their share by prohibiting the construction of godowns in houses except for domestic purposes. The local boards may profitably use their surplus funds in constructing and maintaining such godowns in each centre. The agency in charge of these warehouses can maintain a register of measurements of the godowns and can issue certificate of storage upon the strength of which banks can advance. The banks will be saved the maintaining of the special staff which they are now doing and can therefore be able to lend at better rates. The borrowers will not only profit by the reduced rates charged by

banks but will also have the benefit of reduced rates of insurance as any insurance company will be glad to quote special easy rates to cover risks in well-built and protected blocks of godowns.

One of the methods of helping the development of agriculture and the financing of agriculturists is the development of agricultural paper market of a currency longer than that of ordinary trade bills as in America. Farmers who have more than average holdings and who are prepared to maintain their farm accounts in a manner to be prescribed by the Government or by the central banking institution can be given the facilities of getting their bills discounted by the banks. The Agricultural Department can report periodically whether the farm is being run properly and the statement of accounts furnished to and examined by the discounting banks. When such farms increase and when the facility of discounting is assured, discount houses will grow up. The rediscounting banks, which may either be a farmer's bank or land mortgage bank or an ordinary joint stock bank, may obtain a certificate from the discounting house or broker that the bills offered as agricultural bills are really just such as is now being done in the case of the reserve bank in the U.S.A. and in the case of trade bills offered for re-discount by discount brokers and constituent banks.

II.—Indigenous banking.

1. Indigenous bankers in the Presidency may be grouped under the following heads:—

- (1) Local people who are rich and have liquid cash;
- (2) the Marwaris; and
- (3) the Nattukottai Chettiars or Nagarathars.

The first class are generally reasonable in their rates of interest and advance mostly on mortgage of properties for long terms.

The second class of bankers are quite numerous and have very wide ramifications. They lend for purposes other than genuine trade purposes also. Their capital is obtained from their native places and during the busy season is drawn by selling bills on Bombay. Though the feeling is very strong against their existence, still they are tolerated as a necessary evil as they finance trade to a great extent. Till recently there was only the Imperial Bank of India and there were no joint stock banks or nidhis. It is only some of the bigger merchants that can obtain credit facilities from the Imperial Bank and even that only to a limited extent. The bigger merchants for their other requirements, and the smaller merchants for the whole of their requirements, have been forced to go to the Marwaris. Further, these money-lenders give the merchants money at all odd hours of the day and for very short periods also and do not insist on a co-obligant or endorser. The interest charged, unless it be for first-class parties, is never less than 12 per cent and usually during the busy season goes up to 24 per cent or more. The borrowers merely sign on the money-lenders' ledgers and obtain payment. The borrowings are usually on demand and interest is enhanced and compounded whenever a demand is made and the loan is not paid.

The third class of indigenous bankers are different from the Marwaris in that they are able to attract some local deposits, while the Marwaris are unable to attract any. The Nattukottai Chettiars also have branches or offices in all places and are in close touch with the borrower. Like the Marwaris, the Nattukottai Chettiar's working funds comprise, besides the deposits he is able to get, his own capital and amounts borrowed from banks.

3. There is generally very little co-operation between the local money-lenders or between them and the Chettiars and Marwaris. Between the latter also, there is very little co-operation except when one of them suspects the solvency of any borrower. He then gathers together the rest of his class who have lent to him and all of them demand repayment simultaneously. This is often the cause of many failures of the local merchants who would have saved themselves from the crash if given a little time. The rates of interest charged by the Marwaris and Chettiars are so high as to give them sufficient margin for bad debts and they would rather go in for composition for the sake of spot cash rather than wait for some

time and get a fuller repayment of their dues. The easy credit allowed by the local money-lenders have demoralized the merchants and made them trade to an extent which neither their capital nor their resources justify.

Even if the joint stock banks increase in numbers and extend their activities to the mufassal, there will still be a class of merchants and a type of business which they cannot finance owing to the nature of their constitution, the restrictions imposed by statutes and the responsibility they owe to their depositors. It is only indigenous bankers with the benefit of their closer association with the borrowers, less costly establishment and overhead charges and greater freedom in the choice of the borrowers that can fill up the gap. It is, therefore, highly necessary that this class of bankers should be encouraged and organized.

6. The high rates charged by the indigenous bankers are, among other reasons due to lack of sufficient capital to finance the trade during the season. The securities they take for the advances made lie idle till the loans are repaid and therefore the turnover of their business is restricted to the amount of their capital. If these bankers are given discounting facilities and are taught the benefits of that practice, their turnover will increase with a consequent increase in the percentage of their profits and they will then be in a position to reduce their rates. Certain classes of indigenous bankers like the Multanee shroffs enjoy such facilities and their rates also are correspondingly much more reasonable than those of other bankers and money-lenders.

11. Difficulty will be felt in inducing the bigger joint stock banks to discount the hundis of these bankers as with the present means at the disposal of these banks they are not in a position to know much about the financial condition and the nature of the advances of these bankers. The indigenous bankers will not agree to give the same publicity to their transactions as joint stock banks do. But they can be induced to give a financial statement of their business to banks, in confidence, and the banks can investigate them and if found satisfactory give them the facilities of discount. The joint stock banks can in their turn get these papers rediscounted with the central reserve bank. Thus indigenous bankers may be linked on to the central banking institution and the money market.

To create facilities for discounting the bills of the indigenous bankers in the mufassal, the central reserve bank will not be in a position as it cannot have many small branches. The scope of business of the central reserve bank must, of necessity, be restricted to dealings with other joint stock banks. It cannot deal directly with merchants or indigenous bankers unless they are really very big and submit to their accounts being audited like joint stock banks and to other stipulations that a reserve bank will impose for allowing them the benefits of rediscounting facilities with it. Even if they do, it is only a very small percentage that will do so and the majority of the class will be left out. For helping them, it is only joint stock banks that can come in and it must be the policy of the Government to help in the strengthening of the existing joint-stock banks and inducing them to open more branches or in the creation of more joint-stock banks at various centres. The absence of joint-stock banks is felt very keenly in the mufassal where apart from the Imperial Bank of India and the few branches of the Indian Bank, there is no joint stock bank of consequence.

The opening of a local bank with a local directorate may be desirable but it will not be possible as very few places can supply the required capital. The central reserve bank cannot do it usefully as already explained and so it is only the existing joint stock bank that must open new branches wherever there is no scope for raising local capital. It is better because it is found from experience that an institution with no local attachments and not dependent on local parties works better. In every place there are parties and a local directorate is likely to be influenced by party politics if they should be the sole directors of the institution. There is also the likelihood of an institution becoming unpopular if the controlling party in the directorate happens to be unpopular. The branches of a joint stock bank can have the benefit of the experience of the indigenous banks by constituting an advisory board for each branch and inviting some of these bankers and the big merchants of the locality to serve on it. Further, if

these bankers are given discounting facilities, they will necessarily come into intimate contact with the branches and in trying to keep their credits alive will give only bills of good parties.

There is also another reason why it is better to have for some years at least, branches of a good joint stock bank with offices at provincial centres than local banks. The business in many of these places is seasonal and money remains idle during the dull season without being able to earn any interest. A branch bank can then easily divert its funds through its head office or its provincial offices to other centres where there may be a demand for money and where they can employ these idle funds usefully. This will be an advantage to the local merchants as the branch will then be able to advance during the season at more reasonable rates than it could if it should keep the money idle during the dull season. There will thus be co-operation between different business seasons and a lessening of the average rate of advance and the total amount of currency required to finance the trade will also be less.

III.—Investment habit and attraction of capital.

1. The banking resources in the province, as far as investment is concerned, are the indigenous bankers like Nattukottai Chettiyars who receive deposits, nidhis, funds, co-operative banks, joint stock banks, the Imperial Bank and post offices. There are enough facilities but, as long as the existing disparity in rates on mortgage loans and deposits with any of these institutions exists, it is only an offer of very high rates that will attract deposits to themselves.

2. There is very little deposit in banks in the districts because the savings are invested in lands and houses. Though the yield on these investments is not higher than on deposits with co-operative banks, investments continue to tend in that direction because possession of lands and properties raises the status of the individual and affords tangible proof to the public of his solvency and raises his credit thereby. The postal cash certificates and savings banks are not popular because they are not attractive and there is also not sufficient publicity given to them.

4. The cheque habit is not popular because very few have bank accounts and most of the cheques come to the bank for encashment. This is bound to cause some trouble to the payees as they have to come to the bank and will have to do so within banking hours. Being unaccustomed to the law of endorsements they experience great difficulty in cashing cheques payable to order. Even the merchants in the trading centres do not take to it kindly as the necessary delay in cashing cheques is inconvenient to them. If payments are made more expeditiously and if more people start having accounts in banks, cheques will become more popular. It is very desirable that this habit should be developed as it will mean less of actual currency in circulation and be more convenient to the people also. It will help in developing the habit if Government can issue cheques in paying salaries but sufficient banking facilities must exist for their servants to cash them without trouble and inconvenience. Vernacular scripts can be easily introduced in cheques and the Indian Bank has already done it. The cheque habit will grow with the growth of the joint stock banks and this will be facilitated by having clearing houses at places where the number of banks is large enough to justify one.

5. The opening of several branches of the Imperial Bank of India has helped in bringing banking facilities to many places which had none previously and have enabled the local trade to obtain at least a portion of their requirements at cheaper rates than what the indigenous bankers were charging. But the Imperial Bank has also missed much that it could have done. There is a general feeling of a lack of courtesy and sympathy felt by the constituents of the Imperial Bank. The monopolistic position it holds in the market, the isolation and the prestige it surrounds itself with because of its Governmental association, the official and bureaucratic atmosphere that pervades the institution and the absence of personal contact between the agents and the businessmen wherever the agent is an European, have not been conducive to the creation of that type of relationship that ought to exist between a banker and its customer. In that respect it has inhibited the growth of banking habit in that class of people who are

depositors and are not borrowers. Things would have been different if the Imperial Bank had the same necessity to find deposits for its business as the other joint stock banks have.

Though the Imperial Bank has been successful in increasing banking facilities in the mufassal, there is much to be desired in the policy the branches adopt in their relation to the joint stock banks existing at the places. The Imperial Bank's branches enter into an unhealthy rivalry with the local offices of the joint stock banks and as they enjoy the benefits of Government funds the competition becomes one between institutions of unequal strength and, therefore, unfair. The competition on the part of the Imperial Bank's branches grows to the extent of becoming an abuse of their privileged position. It is anomalous that the Imperial Bank should offer better rates and better facilities to ordinary businessmen than to joint stock banks and very often the privileges enjoyed by their businessmen-constituents are denied to joint stock banks' constituents though the latter are as much their constituents as the former and are entitled to better rates and better privileges as judged by their financial position and the security they offer. The joint stock banks are not able to use, in practice, the facilities that they may be offered in theory by the Imperial Bank, as they will be disclosing their business and their constituents by so doing and as long as the Imperial Bank operates in the same field, they cannot do so without detriment to their business. The joint stock bankers have, therefore, to work under a big handicap wherever a branch of the Imperial Bank exists, instead of their being benefited by it. The result has been that joint stock banks have not been able to thrive in the mufassal as well as they might otherwise have and the people have suffered to that extent in having been denied banking facilities. While the Imperial Bank itself has not only failed to do what all it might have done, it prevents other smaller institutions from doing their bit. If joint stock banks have to thrive—and it is absolutely necessary in the interest of the country that they should open branches in the interior—the Imperial Bank's scope of business must be restricted in a manner that it cannot work in the same field as the other banks have to operate and that banks should have better facilities from it than what they now enjoy. Whatever the conditions may have been at the time of the amalgamation of the Presidency banks into the Imperial Bank of India that made it necessary to free the Imperial Bank from the restrictions attaching to reserve banks in other countries, while giving them all the privileges of such institutions, it is neither necessary nor desirable that these conditions should be perpetuated. The Imperial Bank can do more to develop trade and promote banking habit if it operates through the existing banks than by its operating directly in the field and if the existing banks are not enough, new banks can be helped to come into existence or these banks helped to open more branches much more easily and at much less cost than by its opening its own branches.

**Written evidence of M.E.Ry. M. NARAYANA RAO GARU,
B.A., B.L., Director, the District Co-operative Central
Bank, Limited, Anantapur.**

1.—Agricultural credit and credit facilities for small industries.

I. (a) The village sowcar is generally looked to, and he still retains his hold upon the agriculturists. The Government has also come to his help in granting him loans under the Takavi Loans Acts.

The co-operative societies where they exist grant loans for all purposes referred to in the question. The co-operative societies grant loans up to a maximum period of five years at 9½ per cent payable in short instalments.

Loans by the Government are granted at 6½ per cent and range from one year to thirty years. The present rate of the sowcar ranges from 9 per cent to 36 per cent. Government accept only landed property as security. The two other agencies accept both immovable and movable properties as securities. The Government and co-operative societies do not accept any prior encumbrances.

The Government grants agricultural finance in the manner described above.

Imperial Bank.—The Imperial Bank does not operate in our district, though there is much need for it.

The joint stock banks.—The joint stock systems in vogue in the district are known as nidhis or mutual benefit funds. They mostly exist in the headquarters of the taluks and mainly work on their share capital. They grant loans to all members, either on personal security or immovable properties. Their loans extend to all purposes.

Co-operative banks.—These are varied in their activities. Banks situated in the towns or in the urban areas as contrasted with the rural areas grant loans both for agricultural and non-agricultural purposes. But the rural societies extend their operations mainly to agricultural needs and the clearance of past indebtedness. There are also societies known as loan and sale societies situate in all big places in the district which grant loans on the security of the produce to the extent of 60 per cent of their value.

There are no indigenous banks in the district. Indigenous banking is not done on an extensive scale. Bankers in the district represent the sowcars who are overcalculating in their demand for interest.

There is a firm in the district which deals in fertilisers having its branches in one or two places. It also grants loans at favourable rates in the matter of purchase of manure.

It is not possible to estimate the amount of capital required for the above purposes. The district is generally poor. The ryot is in an awfully indebted condition, having had to face several successive famines in the past years.

Defects in the present system.—The loans under any of the acts above mentioned are not easily procurable. There is much of red-tapism in the grant of loans. I would suggest and recommend the grant of these loans to be handed over to the village societies or the village panchayat where they exist.

As regards the co-operative societies, they have not got enough of capital to advance. This is due to the fact that there has been no methodical and scientific survey undertaken before the societies were started. Besides, the co-operative movement is not properly understood in the district in spite of its existence in the district for over fifteen years. It is still in the hands of a few privileged people and has not made much headway among the masses. Lack of literacy among the masses and the short duration of loans stand in the way of the ryot being helped out of his difficulties.

There is not much of co-ordination among these various credit agencies. Co-ordination is possible and can be successful no doubt.

2. The ryot generally receives advances long before the produce is gathered and thus sells his produce at a discount. In other cases he has to depend upon the commission agent and lose much by way of commission for securing the sale of his produce. The existence of loan and sale societies has solved the problem to a certain extent. The rural credit societies themselves have to organize this branch of activity by pooling all produce in the village area and selling them in season at favourable rates.

Internal remittance.—The hundi system is in vogue in the district. Considerable amount of money is circulated in this way. Some foreign agencies draw amounts also from the treasuries for marketing purposes, as for example, the Volkart and the Rally Brothers, who have their agencies in the district and draw their amounts from the treasuries and the Imperial Bank's branches.

The co-operative societies also encourage circulation of money in the district by accepting cheques from other sister societies. Facilities must be given for the remittance of funds by co-operative societies for smaller amounts than done now (Rs. 150). Complete remission from money order commission may be granted to the co-operative societies. Recognition may be granted by the Government to the central banks for the transfer of funds just as the branches of the Imperial Bank are doing now.

Since the banking principles are not clearly understood in this district, I cannot make any suggestions in connexion with the negotiable instruments.

Instruments of ownership.—Generally the railway passes and the receipt of invoices are pledged to secure loans for marketing purposes.

3. *The value of land for different kinds of crops.*—Wet lands under a good tank or river are sold at Rs. 1,500 to Rs. 2,000 per acre, the reason being that the permanency of the crops is insured and marketable produce is grown, such as sugarcane, etc. Well grown sugarcane crop, grown on one acre, fetches nearly Rs. 1,000 even in ordinary years. Hence it is wet lands that fetch such high value.

The value of the other wet lands where we grow other kinds of crops, as, for instance, paddy, etc., varies from Rs. 100 to Rs. 1,000 and the annual yield never exceeds more than Rs. 200 to Rs. 250 per acre even in the best of years.

Next to these come the dry lands which are divided into black-cotton soil and red-soil lands. The value per acre in the black-cotton soil ranges from Rs. 100 to Rs. 250 and in the red-soil from Rs. 150 to Rs. 200. All kinds of dry crops are grown on these lands. Prices of these red-soil lands have increased in recent years, owing to the extensive cultivation of groundnuts. Besides these, there are well-fed lands, which are as costly as wet lands though much labour is involved in raising crops on them.

(a) If the sale is well advertised the lands fetch their normal prices. Otherwise they fetch a much lower price than that obtained through private negotiation.

(b) The sales of land under court decrees always fetch lower prices than the normal rates owing to the fear of several claims and cross-claims.

(c) They fetch a normal price.

4. No impediment.

No institutions for granting long-term credits.

I would very much desire that a land mortgage bank be established in each taluk headquarter with funds raised by debentures. Now that lands fetch very decent prices there is no trouble in raising debentures with the present Government guarantee. Before the bank is established I would like to undertake an economic survey of the village and test the indebtedness of the population and grant long-term loans to needy agriculturists, leaving them a fair margin of maintenance with a view to ensure the loan being cleared up within the period.

(a) The present title-deed known as pattas granted under the ryotwari system is no instrument of title and is not recognized as such by the civil courts. If possible I would recommend their being recognized as instruments of title and thus avoid much speculative litigation,

(b) I would be very unwilling to give the power of foreclosure to the financing banks, as at present I fear that we have not got intelligent element to appreciate the dangers attaching to premature foreclosure.

Capital of mortgage banks.—To start with, the Government must guarantee the principal and the interest on the debenture bonds and as conditions improve and people come to know the utility of such banks this will attract also local deposits and the central banks also will be willing to advance loans for long-terms. It may also be suggested that trust funds may be invested in debentures.

5. With a view to ascertain the indebtedness of a particular village I have made enquiries in regard to the indebtedness of each ryot and the chance of liquidating the same. I found that loans extending over a period of twenty years should be given to him and then he will be in a position to liquidate and retain the property in his own hands provided he lives a frugal and economic life.

When I talk of long-term loans I always take it that the security which the debtor gives is one of immovable property. There may be cases where men may have lot of movable property, without owning any immovable property. In such cases it would be unsafe to give long-term loans.

Mostly debts referred to above, namely, *b*, *c*, *d*, and *e* are borrowed from local sowcars.

The co-operative societies have stepped in and are meeting all these demands.

Yes. A number of farmers are turning into tenants on account of losing their property. This certainly takes away any incentive to produce more.

6. Hand-spinning, gardening, weaving and cotton-ginneries are some of the subsidiary industries which are resorted to by the agriculturists in my district in leisure hours.

If improved systems are adopted, provided sufficient capital is forthcoming as a result of Government aid, certainly there will be better out-turn both in quality and quantity. At present the agriculturist is suffering very much for want of funds to improve these subsidiary industries.

In parts of this district, where cotton is abundantly grown I would supply each household with a fly-shuttle loom and make it a subsidiary occupation. In other parts of the district where fruit gardening is possible I would recommend the agriculturist to undertake it, for it is certainly more paying than other occupations. There are certain places where cutlery, that is, making of knives and other implements is undertaken. I would encourage such industries on more organized and scientific lines.

In regard to the working capital and the financial machinery, I would ask the legislature to pass an enactment more on the lines of the State Aid to Industries Act and make the payments either through the village panchayats or the co-operative societies.

7. The tendency of financing banks like the Madras Central Urban Bank is only to give a short-term loan. The deposit in the local banks are also for short periods. These two evils make the work of the central bank in the district more difficult in the matter of granting long-term loans. Perhaps it is the result of this fear that has made them fix only five years as the duration for the payment of loans through them.

At present the capital that has been invested in the co-operative movement in this district is 18 lakhs of rupees including share capital. Taking the figures available in the economic survey of one or two villages I would roughly estimate the needs of the district at ten to twenty times 18 lakhs.

In my district there is no competition between the co-operative banks and the joint stock banks.

**Written evidence of M.R.Ey. M. DEVADASON Avargal, B.A., B.L.,
Vaidi, Municipal Councillor, Palamcottah.**

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturists of this country consist mostly of the depressed classes, to whom I owe my origin. The agriculturists can be divided into two classes, viz., landowning and landless agriculturists. Although the majority of the landholders are high caste men, they do not sufficiently identify themselves with the land so much so that they do not cultivate the lands belonging to them. What they do at present is to lease the lands in favour of the depressed classes and other poor classes of people upon whom the burden of cultivation rests. As a rule the class of agriculturists called the backdone of the country are proverbially poor, although the wealth of the country depends upon agriculture.

The needs of the agriculturists are too many to be enumerated here. In the interests of the welfare of the agriculturists, it is necessary that some of them at least should be considered and measures calculated to serve the needs should be adopted.

That which the agriculturists stand most in need of is finance.

(a) *For expenses during cultivation.*—The landless agriculturist does not get enough of produce from the land leased to him. If he gets more than he contracts to pay off his master (landlord) it is well and good; but if he gets less than that, he is unable to pay his landlord as agreed; and the landlord contrives to get a pro-note from him for the balance due to him. The pro-note is not discharged in full. On the one hand it becomes a source of embarrassment to the tenant, and on the other hand, it serves as a source of litigation to the landlord, likely to fleece the tenant to the last pie. In cases where the agriculturist has executed lease-deeds for the payment of rent due to the landlord, the latter files a suit upon the lease-deed against the cultivator for the recovery of the full rent if nothing is paid or of part of the rent, if some portion of it only has been paid to the landlord. For his subsistence during the period of cultivation he might borrow money from the professional money-lenders who are likely to heap burning coal upon his head at any moment of his dreaded and dreary existence.

Large farmers as well as small farmers sell their produce and utilize the proceeds for the purposes of cultivation and others are prone to contract debts from men who aim at profit in lending money.

(b) *Capital and permanent improvements.*—The land in which improvement is sought to be effected, is mortgaged to secure loans to be utilized for such purposes as sinking wells, lowering or heightening the level of the land, or planting fruit trees. If the land does not yield a good return, and the debtor consequently is unable to pay off his debt, the creditor does not hesitate to file a suit against the debtor for the recovery of the loan and the upshot is that the land is sold in auction and it goes for a low bid, most probably in favour of the decree-holder. When a piece of land is purchased and part of the unpaid consideration is secured by a mortgage of the land sold, the agriculturist, owing to his ill luck, is unable to pay the debt and the whole piece of land is sold in auction in pursuance of a court decree obtained against the vendee, and the vendee, moved by a speculative spirit to this kind of bargain, goes to the wall. The little sum that was invested at the original sale is thus lost to the vendee.

(c) *Failure of monsoon, for land revenue, etc.*—Universal distress prevails on failure of monsoon. Even landholders are obliged to take loans from those who are resourceful in their means such as sowcars, etc. Some of the landholders, who can afford to give loans to poor agriculturists, take unfair advantage of their necessity by lending out money at exorbitant excessive and penal interest ruinous to the poor. It is sometimes impossible for ordinary agriculturists to get any loan whatever to get rid of

the distress to which they would otherwise be subjected. Then the whole country presents a pitiable picture at the idea of describing which a decent man shudders.

Interest.—As far as my knowledge goes, I have to say that for some time past the tendency to enhance interest has been more or less curbed. The introduction of credit co-operative societies in rural areas with loans repayable in instalments at the rate of 10 or 11 per cent per annum has brought the professional money-lenders low in the estimation of the general public.

Respectable and conscionable money-lenders charge the debtors at 12 per cent per annum, if the sum advanced is less than Rs. 1,000 and if the loan exceeds Rs. 1,000, then the interest is 9 per cent per annum. But the majority of money-lenders charge any interest up to cent per cent with compound interest from the date of default. Period of loans and the nature or methods of security depend upon the circumstances and needs of the parties. Promissory notes and hypothecation bonds and other deeds are executed to secure the debts. Though the periods for which loans are advanced are comparatively shorter than the documents could be held binding for, the debtors invariably take the full time allowed by law to the bonds. One in ten pays the amount to the creditor before he seeks a remedy in a court of law for the default of the debtor.

The Government profess to help the agriculturists with the loans to be made by the Revenue subordinates. The local karnam and the Revenue Inspector of the fika are to be propitiated before they recommend loans in favour of the agriculturists. This system does not work well and the loans are not available in time when the agriculturists stand in need of the same. The Revenue Inspector and the karnam are difficult of approach for an ordinary ryot. No good is voluntarily done by these officers to these ryots inasmuch as they do not identify themselves with the agriculturists of the country. Though the loans are well devised, they do not serve the purpose for which they are intended. It is true that the loans are repayable with nominal interest in instalments. But they fail to produce the desired effect with the result that the agriculturist is reluctant or unable to discharge the debt in accordance with the terms of the contract. The Imperial Bank, the joint-stock bank and other banks do not offer loans to the needy ryots and the latter are unable to fulfil the conditions of loan prescribed by the bankers.

The co-operative societies established in rural areas offer loans to the members only and the amount of loans is limited to the extent of the assets of the debtor. Loans are not available at all times of the year from the said societies. So we find that the societies do not rise equal to the occasion. Even the members do not derive adequate help from the society.

As regards the capital required for the various purposes of the people of this district, it should be stated that even lakhs of rupees could be availed of by them.

Agricultural loans: improvement.—The karnam and the Revenue Inspector should not be entrusted with the business of recommending loans in favour of agriculturists, since they do not evince any interest in the cause of the people. A body of non-official men, chiefly selfless and enlightened ryots, should form a committee who will acquaint the Tahsildar with the needs of the individual ryots. The Tahsildar must always approve of the recommendations of the said committee in the matter of granting loans to the ryots. The loans should carry no interest for some years.

The rural co-operative credit societies should be provided with sufficient money to meet the demands of not only members but also of non-members of the village. The Government may grant loans to the societies for agricultural purposes also.

2. Marketing principal crops.—The principal crops or produces of this district are paddy, jaggery and cotton. So far as paddy is concerned, it is sold by the ryot after the harvest when he thinks that there is a reasonable price available for the same. Only for emergent purposes it is sold at the time of the harvest. One or two men of the village stock paddy in large quantities by purchasing the same from the ryots in anticipation of making a profit. If this experiment proves disastrous, they give it up and so there is no systematic storing of paddy. But petty dealers purchase

paddy from the ryots, take it to the market or to the villages where there is a demand for the same and sell the same at a profit. This kind of business continues right through the year end.

As regards jaggery and cotton it is to be stated that they pass through several hands before they reach the factory or mills where they are converted into different articles from what they are when originally obtained. The middlemen advances money to the palmyra climbers when they are in need of money on the condition that jaggery should be sold to him at a fixed price always detrimental to the producer. Then, in the season, the producer is to part with the same. In spite of this, his debts remain unpaid, and he is to give jaggery of the next season to discharge himself from the prior obligation. An unscrupulous middleman keeps the palmyra climber in a state of perpetual indebtedness to him. Cotton is similarly dealt with as jaggery in disposal.

The individual producer deals with his commodity in the light of the position in which he is placed. One thing that is prejudicial to the producers is want of co-operation among them. The merchants and middlemen pay money to the producers in return for the produce of the lands on terms convenient and profitable to them and the result is that the producers make nothing out of the contract.

The rural co-operative societies should be trained in stocking the crops and produces of the members and selling them at a profit. Such a practice will affect the merchants but it is likely to do more good to the members. In this district there is no agricultural society and so it is very necessary that agricultural societies calculated to promote the good of the agriculturists should be started.

The banks of this district do not offer help to the ryots in the matter of marketing their produce. Since the ryots and merchants are not sufficiently advanced in knowledge, education and experience, negotiable instruments are not utilized to the extent to which people of other countries use the same.

Coming to the Negotiable Instruments Act, one fact deserves mention in this place. An ignorant poor ryot executes a promissory note in favour of a rich man. He makes part payment towards the same but he is not careful to take receipts for the same from the promisee, or the latter evades to give receipts for the money actually paid. The promisee or his assignor files a suit against the promisor. The plea of discharge of the promisee is difficult to prove. The existence of a decree either *ex parte* or otherwise against a ryot is a millstone hung round his neck. The assignment of a promissory note does harm to a poor peasant, as he cannot prove that the assignee had knowledge of payment of money made by him to the assignor at the time of the assignment.

3. *Value of the land.*—The value of land is assessed in the light of the nature of the soil, water facilities and the market price of the crops growing in the land. Lands fall into two classes, viz., wet and dry. The wet lands are of three kinds, namely double crop, compound wet and single crop lands, the price of them per acre respectively being Rs. 3,000, Rs. 2,000 and Rs. 1,000 approximately. The black cotton soil of North Tinnevely is priced at Rs. 1,000 or more per acre. The dry land of the ordinary kind is sold from Rs. 20 to Rs. 1,000 per acre. Gardens containing coconuts, palmyras, mangoes, etc., are estimated in the light of the probable income likely to accrue to the owner.

(a) For non-payment of revenue the land is sold at auction sale. This is rarely done and if done at all, it is done without sufficient notice with the result that the land is sold for a paltry value not worth mentioning.

(b) When the land is sold for the *satisfaction of a court decree*, it is sold for an upset price, most probably half or two-thirds of the actual value of the land.

(c) In the case of sale by private negotiation the vendor tries to get the actual value of the land. Neither party gains nor loses in a bargain of this kind.

4. *Land mortgage banks.*—All those who have got a disposing power can mortgage or otherwise deal with the lands, trustees, minors and widows alone being exempted. So far as this district is concerned, there is no

land mortgage or agricultural bank in existence. The only land mortgage bank started some time ago in Tinnevely died in its infancy. Although the co-operative society authorities and others have reported that a bank will be instituted in its place nothing has yet been done.

In the same way as credit co-operative societies are working in rural areas, the land mortgage bank should be brought to work. The bank should be ready to offer long-term loans to the clientele of the bank. Tenants cannot have much scope here as they may not possess lands but if they give sufficient security they may be allowed to have the privileges of members.

Improvement in the record of rights and titles.—The members of the bank should be authorized to find out the genuineness of the titles and rights of a particular member in consultation with the Tahsildar of the taluk in which the properties of the member are situated.

In case of non-payment of debt, the rules of arbitration followed in the matter of recovering the debts due to the co-operative society may, with advantage, be adopted. The execution of the decree may be left to the civil court having jurisdiction.

The working capital should be largely derived from deposit funds, from central institutions and debenture bonds, and loans from the Imperial Bank.

To secure Government against unnecessary loss the rule of priority of crown debts in preference to other debts should as far as possible be enforced. The land mortgage banks should receive deposits for the nominal interest of $3\frac{1}{2}$ or 4 per cent per annum whereas the money lent should carry a little more than the legal interest of 6 per cent per annum. Both current and fixed deposits should carry interest; otherwise, there will not be much inducement for ordinary persons to invest money.

The absence of a land mortgage bank works a great hardship upon landholders, panniaris and small landholders who, when hard pressed for money are obliged to give up their lands for such price as could be secured. In the south when a panniar is unable to pay his debts which amount to several thousands, it is the mutts who go to the rescue of the panniaris. The mutt being not so speculative as a money-lender offers a paltry or fancy sum for the lands sold to it. Such a sale helps the lands to fall into what was in England called Mortmain (dead hand). The mutt does not alienate the land once it is acquired by it. So there is a tendency for the accumulation of the properties in the hands of the mutt which no legislator has thought it fit to check. If a land mortgage bank could help a panniar, then the lands will not go to the mutt.

5. For the purpose of arriving at an estimate of the *existing indebtedness* of a village or district or a province, it is necessary to make a local inspection and take statistics of the assets and liabilities of the village or district. I herewith enclose an approximate estimate (not printed) of the indebtedness of an Adi-Dravida village furnished by a resident thereof. It is a village consisting of 94 houses with a population of 465 persons, the majority of whom are agricultural labourers. Their assets, composed of both wet and dry lands, are estimated at Rs. 45,800 whereas their debts amount to Rs. 18,780. Of this amount Rs. 8,530 is secured by means of registered hypothecation deeds and the balance by pro-notes, except an item of Rs. 300 due upon account. The people who are indebted to the extent of Rs. 18,780 might have a few outstandings amounting to 2 or 3 thousand rupees. If the debts are not paid by these people in time, the aggregate amount of principal and interest might be doubled or trebled and their assets may be swallowed in the process of satisfaction of these debts either through the intervention of the court or private negotiation.

The farmers contract debts from professional money-lenders and bankers for the purpose of satisfying an earlier debt, the marriage expenses, the payment of land revenue and for purchasing seeds, bulls and manure and the like purposes.

The Government advance agricultural loans, though not in time. The co-operative credit society offers loans to pay off an antecedent debt and to meet present and contingent expenses. But indigenous bankers and professional money-lenders take unfair advantage of the necessities of the

poor and needy and lend money at an exorbitant interest. Money-lenders are always careful to charge the debtors enhanced interest with compound interest highly penal and excessive in default of the payment of the principal or interest at a stipulated time. Some people being extravagant at the time of the marriages incur heavy expenditure, and reap the fruit of their folly later on. Others lavish large sums of money upon their sons on their education in anticipation of Government posts and they are ruined when their hopes are not fulfilled. Small landholders are sometimes deprived of their holdings when they are unable to pay off their debts. The lands which were once properly attended to, do not receive such attention as to ensure the fertility and productiveness for which the lands were once noted. The new man into whose hands the lands pass leaves the same in charge of an indifferent cultivator who does not identify himself with the land of his occupation. Consequently the land deteriorates and the outturn is despicably poor.

6. *Subsidiary industries.*—Apart from agriculture, cotton and jaggery referred to above, there is a large number of industries followed in this district. Every village is a self-contained unit and every form of industry to answer the demand of every other neighbour is carried on in the village. The life of the villager is thus rendered pleasant and comfortable.

The industries of the district depend upon the resources of the district. A larger part of this district is studded with palmyras so much so that it is called the palmyra district. Large consignments of jaggery are sent to Tinnevely Junction for the manufacture of sugar and for the distillation of country arrack in Thatchanallur. Strings from the lower stem of the palmyra leaves are being extracted and they are sent down to Kulasekarpattanam and Tuticorin for the manufacture of ropes. In the house of a common person of a village, boxes are made of the fibre and leaves of the palmyra.

Cotton is being sent to Papanasam, Tuticorin and Koilpatti Mills for the conversion of the same into yarn and weaving is carried on in centres, like Ervadi, Melapalayam, Kadayanallur, Viravanallur, Palamcottah, Pettai, Sankaranainarkoil, etc.; khaddar is a new feature of the day. Wherever Swadeshi spirit is strong, people are induced to weave khaddar cloth. It is not so comfortable and cheap as the foreign-made cloth, but people wear the same out of patriotism and they think that by the adoption of the khaddar, they could check what they think the self-aggrandisement of the foreigners.

Then there are bidi and cigar manufactures at Mukkudal, Pettai and Tinnevely. Many have become suddenly rich by means of this trade. Hides of cattle are sent to Melapalayam for being tanned and sent to commercial centres. In towns such as Palamcottah, Tuticorin and Tinnevely shoe-makers prepare shoes and sandals; and they are sent to distant places. The local firms have stopped getting foreign-made shoes.

On the slopes of the hills there are coffee and tea estates, the produce of which is utilized for satisfying the local requirements. Large coupes of forests have been leased to contractors by the Government. The timber and firewood are being sent to the towns. In almost all villages there is the minor industry of mat-making followed by a class of Muhammdans. Reeds available in the Government lands are leased to these people for the promotion of this industry. The Tahsildar of Ambasamudram with a view to facilitate this industry, recommended to the Government that people engaged in this industry should be allowed to make free use of the reeds available to them in the Government lands.

Senna leaves are gathered and sent to foreign countries for making dye to be imported into this country at ten times the original price.

The Koravas—one of the depressed classes—manufacture baskets and boxes in several varieties out of bamboos, wild palms and sticks. In such places as Tisayanvilai and Tenmalai there is match industry; and the matches are no less inferior to the foreign matches. In Pettai a sort of thin paper is prepared out of waste papers which cannot be used for any other purpose.

In the same place soaps of a cheaper quality are made. The tendency of the people to get them for as cheap a price as possible precludes the maker from improving their quality.

There is the manufacture of brassware vessels in Tinnevely, Pettai, Palamcottah, Seidunganallur, Thatchanallur and Sankaranayinarkoil. The people engaged in this industry are indebted to the merchants who supply them with the metal. No profit is realized by the maker and as such this class of people are always indigent.

• *Fishery.*—Once in a year or two there is a pearl fishery conducted by the Government in the Gulf of Mannar near Tuticorin. This leads a large number of speculators to flock to Tuticorin and try their luck with the result that they lose their money, the Government making a huge profit. Akin to this is common fishery that is carried on right through the year by the fishermen living in the coastal towns of Tuticorin, Kulasekharapatnam, Tiruchendur, Manapad, Ovari, Vijayapathi, etc. This affords employment to most of the people. Further, the fishermen gather coral stones from the Gulf of Mannar near Tuticorin and sell them to the people who use them for building purposes.

I find now that some of the industries which brought a good return to the people have been abandoned. Sugarcane was largely cultivated in Tirukurangudi, Kalakad and other places and sugar was made out of it and this was more profitable to the cultivators. But it is quite incomprehensible as to why this has been abandoned.

These industries have not been properly attended to by the Government. Some raw products, such as senna leaves, leather and cotton yarn, are being sent to foreign countries for a nominal price and when they are imported into this country as finished products, they fetch a fabulous price.

The people engaged in these several industries borrow money or get the raw materials from the capitalists; and when they give the finished products back to the capitalists, they get only a nominal price for the same. Sometimes the capitalists, being avaricious and unconscionable in their bargains with the labourers, deprive them of their nominal profits or the costs of their labour. Thus they are exposed to the cruel mercies of the capitalists who do not see to the well-being of the customers. Sometimes the labourers are sued in a court of law upon a false account and thus they are ruined.

In this country the existence of caste system works a great hardship upon the trade and industries of the land. People believe of course superstitiously that each caste has a definite calling of its own which no other caste is competent to perform. The man fixed to a calling by birth might develop the industry or allow it to deteriorate for want of application. People of one caste may not relish the idea of another caste man invading their province by taking to new industry which his birth did not ordain him for. Then the idea of untouchability prevents one-sixth of the population from taking to decent or comfortable occupations of life in accordance with their inclinations.

Another drawback to which most of these industries are subjected is the backwardness of the labourers and artisans. They have not taken advantage of the modern and up-to-date appliances and inventions to cope with the progress of the advanced countries in industries of this kind. As such the country is not able to face the foreign competition. In order to secure capital for enterprises of the sort described in the foregoing paragraphs, it is necessary that a fund should be started and it can be done only by the trade unions of the kind prevailing in England. So I suggest that trade unions should be started in this country. Such trade unions should create a fund for the promotion of the crafts to which they are pledged but also they should receive financial help as the co-operative credit societies of the rural areas. For the successful working of the trade unions, the members must mutually trust each other.

Another drawback affecting the industries is insufficiency of advertisement of the wares. The car festival conducted in several towns attracts a large number of artisans, traders and industrialists and they exhibit their wares before the public who purchase them. This is done not with a view to improve the industries but to dispose of the commodities.

For the proper advertisement of the industrial products, there ought to be exhibitions conducted in important centres so that the people might feel stimulated to make such articles as they think they can do. The

industrialists also will be inclined to turn out more articles as they find that there is more demand for the same on the part of the public who visit the exhibition. The national spirit of the people manifests itself in the holding of conferences attended with the exhibition of khaddar products and other articles in the centres where they are held. The import and use of foreign articles in preference to indigenous products is vehemently condemned. People get actuated with the desire to improve local industries and to use local products only. But such a spirit of nationalism is ephemeral, as people lose all their spirit when they go out of the conference pandals.

Mat-making, hand-spinning, weaving box, basket-making, carpentry, gardening and rice pounding or milling are some of the enterprises which could be resorted to in the leisure hours of the farmers to enable them to supplement their slender income.

7. *Relations between banks.*—The various co-operative societies of the rural areas that perform the functions of the bank have got transactions with the district co-operative bank. The latter make loans to the societies repayable in instalments in the course of a few years. The indigenous banks carry on business apart from the Imperial Bank. The joint stock companies, like the Nadar Bank of Tuticorin, are said to have dealings with the Imperial Bank.

The co-operative societies give small loans to the members, out of the money obtained from the district co-operative bank. The joint stock banks offer large sums with enhanced interest because they seek profit. But the co-operative societies do not aim at a profit but at the welfare of the constituents. To the credit of the Nadar Bank and the South Indian Bank, Limited, Tinnevely, it is to be stated that they are carried on sound lines. The Jaggery Commission and the Forwarding Agency, Limited, Tinnevely, which aimed at the development of industry utterly failed as it was not conducted on sound lines. The Adi-Dravida Kashta Nivarthi Company, Limited, Karivalamvandanallur, has just sprung into existence. The success or failure of this company remains to be seen.

II. Indigenous banking.

The indigenous banker lends money to merchants and they return the same as they sell out the wares for which money was borrowed. A merchant of a different place who has got money to his credit in the bank asks the banker to pay a certain amount to another merchant or customer of his in the village where the bank is situated. The banker having paid the amount to the merchant debits it to the name of the man who draws upon the bank. Thus business is easily facilitated. Similarly another merchant of the place asks the banker who is living in the place of the first merchant to pay a certain sum to him and deduct the same from the sum standing to his credit in the bank. The bankers lend money to industrialists dealing in yarn, brassware, etc. The indigenous banker very seldom helps an agriculturist but he is inclined and prompted to help traders who, he thinks, can return the money much sooner than an agriculturist does.

3. *Organization.*—An indigenous bank is in this country an enterprise of an individual member or that of members of a family or of partnership of some men. In commercial towns one who has got a large sum of money thinks of lending it to traders and others at a profitable rate of interest which never goes below 12 per cent per annum. Some sowcars charge Madras current (பூபு) interest plus 2 annas every month. The capital of a concern like this ranges from one lakh to several lakhs of rupees.

Further, they stick yarn and give it to the customers in place of money.

They are always careful to take a sufficient security from the debtors for the money lent and they also take pledges of jewels for small sums.

They minimise their expenses by employing a few hands to do clerical work.

As banking does not require any exertion, a man of money takes life easily by resorting to it.

4. Sample of a pro-note—

1926-ம் ஆண்டு செப்டெம்பர் மீ 15உக்கு 1102 ம் ஆண்டு ஆவணி மீ 30உ நாங்
கூணேரி தாலுகா இலவங்குளம் சரகம் வேப்பங்குளத்திலிருக்கும் ஆறுமுக
குடும்பன் மகன் வீரப்பெருமான் குடும்பனுக்கு ஷே தாலுகா கண்ணநல்லூர்
நிலவிருக்கும் பொன்காத்தபெருமான் நாடார் மகன் நாராயணநம்பி நாடார்
எழுதிக்கொடுத்த பிரமுசேரி தோட்டு

என்னவென்றால் நான் என் அவசர நிமித்தம் தம்மிடம் ரொக்கம் கடனாக
வாங்கியது ரூ. 100. இந்த ரூபாய் நூறுக்கும் மாதம் 1க்கு ரூபாய் நூறுக்கு
வட்டி ரூபாய் ஒன்று வீதம் வட்டிகூட்டி கூடிய வட்டியும் முதலும் தமக்காவது
தமமுடைய உத்திரவு வேண்டும்போது ரொக்கம் தந்து போடுவேனாகவும்.

[ஒரு அணு] ஸ்டாம்பு ஒட்டி.

(ஒப்பம்) நாராயணநம்பி நாடான்.

சாசுதிகள்—

வெள்ளைக்கவுண்டர், ஐக்கரணை கவுண்டர் குமாரர், சொக்கலிங்கபுரம்.
பெரியமாடக் குடும்பன், ஆண்டி குடும்பன் மகன், தளவாய்புரம்.

இத எழுதியது சிவராம பிள்ளை, தளவாய் பிள்ளை மகன், கண்ணநல்லூர்.

(Translation).

Promissory note executed in favour of Veeraperumal Kudumban, son of Arumuga Kudumban, residing in Voppankulam, Elavankulam division, Nanguneri taluk by Narayananambi Nadar, son of Ponkattaperumal Nadar, residing in Kannanallur of the above taluk on the 15th of September 1926 corresponding to the 30th of Avani.

I have this day received in cash from you Rs. 100 to meet my urgent needs. I shall pay to you on demand or order this sum of Rs. 100 with interest at the rate of one per cent per mensem.

One anna
stamp.

(Signed) Narayananambi Nadar.

Witness—

Vellai Gounder, son of Nakaranai Gounder, Chokkalingapuram.
Periyamadu Kudumban, son of Andy Kudumban, Dhalaivaipuram.
Written by Sivarama Pillai, son of Chalavai Pillai, Kannanallur.

5. *Methods of granting loans.*—The indigenous banker allows 9 per cent per annum interest to a depositor and when there is no demand for money in the market they reduce it to 7½ per cent per annum. Year after year they calculate the interest and add the same to the principal and make an entry in the pass-book issued in favour of the depositor.

6. The rates of interest either for an agriculturist or trader is exorbitant and the indigenous banker always wants to knock out as much as possible from the debtor by enforcing his contract containing a penal clause relating to interest. The Court relieves the debtor against the penal interest only if the creditor resorts to the Court. Otherwise the relentless money-lender forces the borrower to pay interest to the last pie. Restrictions should be placed upon the creditor in the matter of enforcing penal and excessive interest against the debtor.

7. Indigenous bankers have gained a notoriety for their extortion and relentlessness in their bargain. The Courts are sometimes forced to observe sanctity of the contract by allowing the stipulated interest in favour of the bankers. As far as possible the indigenous banking whether safe

or unsafe is conducted on what the bankers conceive to be sound lines. The individual indigenous bankers of a town could be asked to form a federation and to carry on their business in accordance with definite rules of their association. If this is not possible then every indigenous banker should register his concern and be prepared to submit his accounts for the examination of the officials. The indigenous banker who follows a policy of selfishness and exclusiveness may not like the idea of an association wherein he has to lose his identity.

The money of all indigenous bankers could be thrown into one hotchpot and cotton mills, sugar factories and leather shops could be usefully started.

III. Investment habit and attraction of capital.

1. The income of the agriculturists, the profit of the merchant and the unspent money of a rich man are the resources of the banking of this district. The co-operative banks of towns, the post offices, the Imperial Bank and the other banks referred to above, are the institutions where money could be deposited for a profit. These banks do not offer attractive interest, and as such people lend money to the poor and needy who in a moment of haste are willing to pay any interest the creditor imposes upon them. A chit karaswan of the village sometimes conducts banking in the village. He has got money with him always and he lends money for high interest but he does not extend the concession to the people whose money lies in deposit with him.

Womenfolk of our country have got a desire to convert their savings into jewels of gold and they do not want to lend them to those people who are in need of money. Some people have no trust in banks and whatever earnings they have are invested in the land, although the return for such investment is comparatively poor.

2. Postal cash certificates are not popular in this district and to the majority of the people of this district it appears to be a strange thing. Five-year cash certificates for Rs. 1,000 were sold for Rs. 750 some time ago. Then there was demand for them. Then when the amount was raised to Rs. 800, there was no bid for the same. Subsequently though the amount was reduced to Rs. 775 the people have not purchased the cash certificates. The cash certificate must be reduced to Rs. 700.

The savings bank does not give more money than a man has deposited in the bank. Middle class people resort to savings bank. A higher rate of interest should be allowed on the deposit. For other classes of people who invest money in the savings bank, the rule that one cannot deposit more than Rs. 750 per year should be relaxed.

3. As the Government offer a higher rate of interest and exempt sometimes payment of income-tax, people are induced to take Government securities rather than deposit money in a bank. The small agriculturists and investors do not know anything about the Government securities and they do not have money at the time when the Government make demand for investment. Soon after demand is made it is the rich people that invest money in the Government. It should be provided that small investors could deposit small sums at the time of the harvest or after the harvest when they have money on their hands. The habits of various groups of people with reference to moneys which come into their hands are determined by their surroundings and the circumstances in which they find themselves.

The Adi-Darvida labourer is a spendthrift, he can work well and does not care for the morrow. He invests his earnings in the toddy or arrack shop. He says that he will fall ill if he does not take toddy after a hard day's work. His drink metamorphoses him and his spirit and body undergo a change for the worse. He does not care for his dear wife and children. There are some exceptions to this. Those who are frugal are able to make money. If they have money, they think the best investment is land and so they purchase lands. They are not speculative as the middle class of people.

The middle class of people, such as shepherds, think it worth while to invest money on cattle and they make much profit out of them. The Mahavars are a careless set of people, but they manage to earn their bread and help their families through thick and thin. The Vellalas are speculative and they lend money at enhanced interest or they commence business and deal with cloth, etc. They have got indigenous banks. So also are the Brahmans. They make immense money and they hoard up their treasures and find means of useful investments. The Nudars are the most industrious and they being the majority are most influential. They have banks of their own.

The poor agriculturist might keep his earnings in his house, subject to the risk of being stolen in the night by a criminal who has got the scent of them.

Small farmers sometimes lend money to their fellow farmers at 12 per cent per annum or more but some other people might charge cent per cent and in such cases the debt is never recoverable.

The surplus money in a prosperous year is used in making small investments or in improvement of lands or for the purchase of carts, bulls, etc. The capital of the indigenous population is not tied in the family and it leaves their hands very soon.

4. This is common only among the educated classes and it has not sufficiently spread among the people. This is due to the ignorance of the majority of the people.

5. Banking and investment are not sufficiently developed in this country. This is no mutual trust among the people and one views the concern of another with a certain amount of suspicion. As the people are divided into several castes there is no co-operation among them. Any enterprise of national importance cannot be undertaken unless the people of all races sink their differences in the common cause of India.

The new branches of the Imperial Bank of India started in several parts of the country have afforded facilities for all classes of people to invest money or to take loans from them. The Imperial Bank has aroused the people and they are induced to have dealings with the same. The intimate connection the bank has got with the Government has created confidence in the minds of the people. Further, many banks spring into existence and they follow the example set up by the Imperial Bank in their line of conduct and business.

**Written evidence of M.R.Ry. KURUDI KRISHNA RAO Garu,
Pleader and Municipal Councillor, Anantapur.**

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturist in the southern taluks of the Anantapur district obtains money for expenses during cultivation, from out of his savings of the previous year, if he is not a man of a large family. One, having a number of dependants and not having much to fall back upon, borrows from well-to-do ryots of the village or from the petty money-lender. As for capital and permanent improvements, the takavi loan system of the Government is of considerable assistance to the ryots in general. The average ryot has to borrow from the village money-lender, for paying the land revenue when the monsoon fails.

Unless the local co-operative society or the Government takavi system comes to the help of the ryot, he has to pay a high rate of interest for the loan he has to raise. The private money-lender charges generally 2 to 3 per cent per mensem. Long-period loans are charged a lower rate of interest, but as far as I know the rate is not less than $1\frac{1}{2}$ to $1\frac{1}{4}$ per cent per mensem, even in cases of security of immovable property. An ordinary ryot does not raise a loan from the private money-lender, in the long-period system, as his rates are exorbitant.

The Anantapur district is noted for a large number of co-operative credit societies. Still the part played by them in the matter of coming to the help of the really needy agriculturist, is not much; and it will take a long time for the said societies to drive the private money-lender from the field. The district co-operative bank located at the headquarters of the district is financing the rural credit societies, but I doubt if these societies render real help to the agriculturist in general.

2. The part played by banks and bankers is almost nil, in the matter of marketing of agricultural produce. The enterprising merchant of the locality or of the taluk buys the agricultural produce of the village and sends it on to the market and sells it in the 'Mandis' or the native warehouses; in the transaction the merchant reaps the middleman's profits. These middleman's profits can be avoided, only if the co-operative societies or similar organizations collect the produce of the village through their accredited agents and sell it in the market, and thus make themselves somewhat beneficial to the ryot.

Hundis, railway receipts and other forms of credit are not of much use in raising money—if at all, they touch only the fringe of the question.

3. A first-class wet land in this district does not cost more than Rs. 800 to Rs. 1,000 per acre, a well-fed land, some Rs. 600 per acre; the black cotton soil, Rs. 200 to Rs. 300; the other soils range in value from Rs. 10 to Rs. 75. The value of land in purchase by private negotiation is far higher than that in the event of sale by court auction or in Government auction for non-payment of revenue. The court auction is held not in the village where the land is situate, but at the court-house; therefore, the decree-holder who has brought the land to sale in execution of his decree, and probably one or two residents of the concerned village come to bid at the court auction. Thus, the element of competition in the economic sense of the term, is non-existent among the few bidders that attend a court auction. The sales of lands in Government auction for non-payment of revenue, are few and far between; and the lands that may thus come up for sale are got back by the owners by payment of the dues within the time allowed under the rules. It is this, I should think, that stands in the way of the price of lands, going high in Government auction.

5. I do not think that a large number of efficient farmers are being turned into tenants. The age-long attachment of the farmers to their farms and the conservative nature of the people especially of the rural areas, among other causes, stand in the way of their losing their farms.

6 & 6-A. The subsidiary industries allied or supplemental to agriculture in the Anantapur district are dairy-farming, jaggery-making, cotton ginneries and handloom-weaving. The dairy-farming industry is being carried on, on primitive lines, practically in every farmer's home. Milk, curds and ghee help the farmers to make a few rupees a month and thus enable them to buy a few necessities of life in the market. It is only the landless men and women that seek employment in cotton ginneries. Men of the weaver community buy machine-made yarn and weave and are making a hand-to-mouth living. Hand-spinning which had almost become extinct, by reason of the cruel competition of the machinery turned by steam, is showing some signs of revival here and there, owing to a revival of the desire to use hand-spun and hand-woven cloth. If the ryot should be induced to revive the ancient industry of spinning, he and the members of his family can keep themselves employed in the off season and to some extent at least supplement their income from the land. The hand-spinning industry which is so eminently suited to the genius of the people, deserves encouragement by all the well-wishers of the country. As I am against the creation of a new organization for rendering help to this industry, I would propose that the scope of the activities of co-operative societies should be widened. They should be enabled to buy cotton and supply it to the ryots at reasonable rates. Of course these remarks apply to such ryots as do not grow cotton themselves.

II.—Indigenous banking.

6. The rates of interest in money or in kind are exorbitant in some of the remote parts of the district. Instances have come to my notice, where the interest charged will be much more than the principal within three or four years. Such a state of affairs has been rendered possible because of the absence of organizations to render help to the people by charging reasonable rates of interest. Besides the co-operative credit societies, the Government should adopt a more liberal policy in the matter of granting takavi loans. The rate of interest must be lower than what it is now and the number of years during which the loan is repaid, should be increased.

III.—Investment habit and attraction of capital.

1. As far as I see, the only institutions in existence for encouraging savings and investment habit are the postal savings bank and the co-operative bank. These institutions are popular, mostly, among the educated few. Even to them the former institution is not attractive as the rate of interest allowed is very low. It is resorted to, because it is safer to invest one's small savings in the bank than to keep them at home. Co-operative banks are now more extensively made use of, but even here it is the educated classes that deposit their savings. The other classes of people may be induced to deposit their savings, if better rates of interest are offered and if the 'jewel' habit wears off.

**Written evidence of M.R. Ry. Diwan Bahadur N. SUBBA RAO.
Avargal, Mercara Hill, Mangalore.**

1.—Agricultural credit and credit facilities for small industries.

1. The present system by which the agriculturists obtain money for the objects stated is (1) from money-lenders, (2) through co-operative credit societies and (3) the dealers or middlemen. The landlord advances money to the cultivating tenants for making improvements. For payment of *kists*, the ryot sells some of his produce mostly for a lesser price to the middleman.

The rate of interest is 9 to 18 per cent or in some rare cases 24 per cent. In the case of good security, it is between 9 and 12 per cent. In other cases it is 12 to 18 per cent. In some cases where loan is taken in kind, one has to return 25 per cent more within the year. The part played by Government is limited when floods or famine intervene. The Imperial Bank of India only advances money for purposes of trade. The main sources are co-operative societies, indigenous banks, money-lenders and middlemen. About 10 lakhs of rupees a year may be required for some years. As people become thrifty and industrious, the amount required after 10 years will be considerably less. I have not in my mind big improvements in the shape of major or minor irrigation works. It is our fortune or misfortune that our district is beyond famine zone. We have famine prices. We require numerous minor or major irrigation works and greater facilities for leaf manure. The South Kanara district being a corner of the Presidency is neglected. I am quite sanguine that if minor and major works of irrigation are constructed Government can get about Rs. 10 lakhs more of revenue and the people will get about Rs. 20 lakhs more after paying Rs. 10 lakhs to Government.

I can suggest that greater supervision over co-operative credit societies is absolutely necessary and Government can place some running surplus in the banks to augment their funds. The department should not allow the credit societies to degenerate into a caucus. The benefit should reach the poor. The department should encourage and start non-credit societies.

There is absolutely no co-ordination of work between the multiplicity of institutions—between the Directors of Agriculture, Education, Industries and Fisheries, the Registrars of Co-operative Societies and Panchayats, the Collectors and indigenous local associations. A conference of these officers annually is desirable and a definite plan of work should be decided for execution in the year. A closer co-ordination is necessary. A thorough economic survey is needed. The conditions of each district varies and I therefore suggest that a board for each district be formed with the Collector, Deputy Director of Agriculture and a majority of non-officials whose position and experience fit them for this work.

2. The present method of marketing is one which encourages not one but three or four middlemen. The nearest rice merchant, the wholesale merchant in Mangalore and the big merchants or Dallals in Bombay and other places are some of the middlemen. The selling co-operative societies will be a great boon. A greater supervision of the department and still greater and higher standards of duty, honesty and public conscience are needed. I have not much faith in the retail and wholesale dealers who naturally will not help the agriculturists. The local banks and bankers except lending moneys according to the rules are no help in marketing. We must have marketing boards on a co-operative basis. The Imperial Bank and some of the other banks lend money on goods stored in godowns, the keys of which will be with the bankers. The exports of coffee, pepper, cashew-nuts and generally Mysore produce is mostly in the hands of the European firms. Except in the case of banks and big foreign and Indian merchants, hundis and bills are not in practice. As to other sub-questions, the practice in our district is uniform with that of other districts of our Presidency. The present system is fairly satisfactory.

3. The price of lands here is calculated at the rate of 6 to 10 rice muraas, tent per Rs. 1,000 or more according to the quality of land. Paddy lands are classified into first class and second class, i.e., lands yielding two crops or one crop. An acre of paddy land will fetch Rs. 1,000 to Rs. 1,500. Garden and dry lands are valued by capitalizing at 6 per cent of the yield. Roughly the interest which one gets will be 3 to 4 per cent after deducting assessment.

The best price is obtained by private negotiations, next best at a sale by Court decree, least at sales for non-payment of revenue roughly 25 per cent less and less respectively.

4. Most of the landholders in the South Kanara district are followers of *aligasantana* law. The yejaman is not entitled to mortgage the property without the consent of all the members of the family who will otherwise contest that it is not for family purposes. It is very difficult to prove family necessity. We have no land mortgage or agricultural banks in this district. I suggest the starting of land mortgage banks with power to advance amounts on easy and long-term instalments up to ten years. Such banks may be run like co-operative societies as to recovery, etc. I would suggest that Government should invest about 25 per cent of the capital and the rest may be secured by the ways suggested in the questionnaire. If adequate examination of title-deeds, value of property and care is taken in the deal, land mortgage banks can be run successfully. The value of the land should be generally not less than twice the amount lent.

5. At present approximate answers may be given to questions under this head. It may not be quite accurate. The agriculturists are mostly indebted. Persons who pay Rs. 10 per year amount to 60 per cent of the pattadars. Their state is pitiable. Those who pay over Rs. 10 up to Rs. 100 are about 30 per cent. Those who pay over Rs. 100 up to Rs. 500 may be 5 to 8 per cent. Hardly 1 per cent pay over Rs. 1,000 assessment. The agricultural indebtedness is appalling. The condition of tenants is still worse. The purposes stated in (a) to (i) are all common in our district. Almost all the creditors are co-operative societies, indigenous banks and money-lenders. The rate of interest is from 10 to 24 per cent. There is considerable change of hands for lands in the district. About 75 per cent are small and poor land-owners who part with their properties. They take the land on rent. If rent is not paid they are evicted and earn their livelihood as farm labourers in other villages.

6. In our district the bulk of the population living in villages live by cultivation, either as tenants or farm labourers. A few landholders cultivate their own lands. The only subsidiary occupations in this district are gur-making, garden produce, hand-spinning, fisheries, pottery, brass utensils and other minor industries. The occupations generally go with particular castes. The cultivating tenants who form the bulk of the village population have hardly any supplementary occupations. The only panacea is the starting of co-operative and non-credit societies. In the case of large concerns, Government can lend loans under the State Aided Industries Act.

7. The Imperial Bank hitherto did not lend except for trade purposes. Government may aid by about 10 lakhs of rupees to the district central apex bank for supplementing their funds. There is no competition worth mentioning between joint stock banks and co-operative societies. Exemption of income-tax to genuine co-operative societies is welcome.

II.—Indigenous banking.

1 to 3. All indigenous bankers and money-lenders lend money on mortgage, on pro-notes, on pledge of jewels or on agreements. Some bankers like *Multanis* deal in hundis. Their principal business is to lend money for their best advantage. It is not with an eye for promoting agriculture, trade or industry. They lend money also to agriculturists in the same way as they do to other constituents. The bulk of deposits and lending is done by the Imperial Bank and the co-operative societies. Some joint stock banks of this district such as the Canara Bank, the Banking Corporation, the Pangal Bank, the Karnataka Bank, the Jayalaxmi Bank, the Udipi Bank, the Catholic Bank, etc., handle a crore of rupees in deposits and lending. The money-lenders in the district do business involving about half a crore of rupees.

4. The form of hundis and pro-notes is the same as in vogue in the Imperial Bank.

5. I am not aware of any difference in the methods of granting loans between the banks referred to.

The banks and bankers have their own money or get an overdraft from the other banks or receive moneys from private individuals at a lower rate of interest and lend it at a higher rate. The rate of interest is certainly higher than in other banks. The interest charged by all the banks does not exceed 12 per cent but is mostly between 9 and 10 per cent. The rate of indigenous bankers and banks ranges from 10 to 18 per cent and in some cases even up to 20 per cent. Some Kabulis (4) at present have swooped down here and charge 50 per cent even.

6. The same as stated above. The income of the agriculturist being low, he is often not able to clear off the debt. Even if he clears the entire or a good portion of the debt in the year, he has to borrow every year and so he is always in debt. This is the case among the needy agriculturists who form half the number. About one-fourth do not generally borrow and another one-fourth do borrow sometimes. Perpetually a little less than three-fourths always are needy and miserable. The rates of interest can be brought down and the economic condition can be raised by compulsory elementary education of the right sort. The Government by giving more facilities for leaf manure and by undertaking minor and major works of irrigation can obviate to a very great extent the borrowing and consequently the lowering of the rate of interest. I am not one who will put the blame entirely on Government for all the evils we suffer. We should be industrious, economical, prompt in repayment of debts, spend less on marriages, etc., and run the co-operative societies on right lines. The reduction of rates of interest coupled with the spread of education and the raising of civic and economic conscience will lead to a higher standard of living and enable the agriculturists to spend on improvements and adopt the new methods recommended by the Agricultural Department.

7. People consider indigenous banks as a necessary evil. They have no prejudice for they do come to their aid. They are protected in law so long as their dealings are fairly honest. I do not think they require any special protection. They do get all the facilities as any other joint stock banks. Their dealings are all one-sided, i.e., to their own advantage and not for mutual advantage.

8. The indigenous banks and bankers will prefer to have their own way. I am of opinion that they should be brought under some control as other joint stock banks are, by Regulations and Acts. They should obtain certificates of registration and be then amenable to the special and general law like other banks.

9. The running expenses are comparatively very much lower. The high rate of interest and payment of interest in advance further compensates them for any loss. They make anything between 12 to 15 per cent net.

10. They are able to meet the demands to a very large extent. Every thing depends on the borrowers and the security they offer.

11. All banks and the banking system should be brought under the same Act and Regulations. I would suggest that all indigenous banks and even money-lenders who lend Rs. 5,000 and above should be registered like joint stock banks. I would further suggest that the bankers should obtain licence. Their operations should be on the same lines as authorized by the Act. In that case, there will be co-ordination between the various banks in the whole Presidency and would increase public confidence. I suggest that an annual conference of all the agents of the banks and bankers under the Chairmanship of the Governor of the Imperial Bank of India, should be held in Madras to co-ordinate their work and for improving their state and position. Each bank and all bankers should be allowed to work within the corners of the same Act. This will create self-reliance, initiation, a spirit of enterprise and mutual trust among them. Linking a central bank with a local directorate may not achieve the same results; but this may be tried for three years and the work watched.

12. I do not think that any money is lying idle with the banks or bankers. There are some 2 or 3 months which are slack. In those months some amount is deposited in the Imperial Bank or some central co-operative banks in the Presidency town. I can think of no means of stopping this little flow of money. This state of things will all disappear when agriculture, trade and industry improve under a stable exchange. The spirit of investment which is bound to come will attract capital and the springing up of industries, etc.

III.—Investment habit and attraction of capital.

1. The banking resources are mainly the savings of the people. The people themselves either lend or deposit in the banks including the Imperial Bank. The Imperial Bank of India, Mangalore branch, receives deposits at 3½ per cent. The rate in other banks and co-operative societies are from 6 to 7 per cent. The investment on industries is very little and limited. The deposits in all the banks excluding the Imperial Bank will be between 75 lakhs and a crore of rupees. If the scope of the co-operative societies is extended and land mortgage bank and non-credit societies are started, this district can absorb easily a further crore of rupees. There are facilities for investment but people lack experience and enterprise and the help of really good experts. The people throughout India do invest in silver and gold in the shape of ornaments. It is a useful investment for they can raise money on pledge of jewels whenever necessity arises. This habit will go on until people learn to co-operate with each other and run industries either on joint stock or co-operative lines.

2. The popularity of postal cash certificates gains ground every year. The rate of interest may be raised a little say by half per cent. Savings banks afford facilities to the public. All small investors who want money back now and then resort to savings banks. The amount allowed to be deposited each time may be doubled and the rate of interest may be increased by half per cent. I do not think that postal cash certificates have the effect of reducing their work by the competition of Government.

3. I am not at present in favour of any change in the purchase and sale of Government securities.

Over 80 per cent of the people are not able on account of their low income to save any money but the other about 20 per cent are able annually to save anything between Rs. 100 to Rs. 1,000. Hardly 1 per cent are able to save over Rs. 1,000. The first class, i.e., over 80 per cent are always in need and they are the persons who go to the money-lenders and co-operative societies. Those who can save a paltry sum of Rs. 10 to Rs. 50 invest in gold so that it may be useful to them on a rainy day. Those in the second group are the village money-lenders who invest money also on mortgages. Small farmers slowly and steadily disappear. It is on these the full benefits of co-operative societies should be bestowed. If farmers who save Rs. 100 to Rs. 1,000 are induced to start co-operative societies and do good and noble work among the 80 per cent of the population, the economic condition of India will improve considerably. I pin my faith in credit and non-credit societies on co-operative basis.

4. Those who have banking account, mostly issue money in cheques. For the sake of security, payment is made by cheques by way of evidence. Moreover, a pass-book and cheque-foils indicate the financial position at a glance. The abolition of stamps is a welcome change. The people appreciate it. I think the suggestion of payment through cheques is a good one. I do not think that vernacular script for a cheque is necessary. Even indifferent illiterate persons know how to fill it.

5. Yes; but indications are not wanting that the habit is daily increasing. People are by nature conservative. They have no experience and the necessary training. We have no regular vocational and industrial schools. We have no means of an apprentice course which is quite necessary. Book and theoretical knowledge do not make experts and captains of industry. Government and people, especially capitalists and young men with the necessary aptitude must co-operate in removing the defects above stated. This course will considerably reduce the evil of unemployment. I have not much faith in Government running institutions and handing them

over to the people. It often ends in financial failure as the running expenses are absolutely high. State aid, opening of vocational and industrial schools in centres and arranging practical training in Government and private workshops is necessary. We should further utilize the co-operative machinery for promoting and financing agricultural and other industries. Money deposited in banks and postal cash certificates should flow to a greater extent into co-operative banks and societies. I am not for frittering away energy by opening schools in every district but for allotting generously scholarships to deserving students in every district to undergo tuition in a well-run and equipped school either in the Presidency town or in a suitable centre. I think the opening of new branches of the Imperial Bank of India has done good. It should be made more popular which will serve all classes of constituents.

6. I have given my opinion on my experience as a Lawyer, as Chairman of the Board of Directors of the Javalaxmi Bank and as the Lawyer of the Imperial Bank of India, Mangalore branch, for the last 25 years or more.

**Written evidence of M.R.Ry. S. SINGARAM Avargal,
"Glen Friars", Yercaud, Salem District.**

N.B.—This reply has reference only to Salem district.

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturist, who cannot borrow from a well-to-do neighbour, borrows from a nearby money-lender who is generally a better off agriculturist or a successful, grasping trader, who makes all sorts of conditions. The debt is either on the mortgage of his jewels or on his property for (a), (b) and (c). The rate of interest varies from 12 to 18 per cent.

There are no indigenous banks or bankers, or even professional money-lenders, except one small Nattukkottai Chetti money-lender. Agriculturists in good circumstances and merchants with spare cash are the lenders. The aim of these men seems to be more to grab the mortgaged property, than of making lending a safe paying profession. The exchange and Imperial Banks take no part, while the co-operative banks do a little. Though the district co-operative societies have lent over Rs. 25 lakhs, the agriculturists have not made use of the organization freely, because long-term credits are not available, which is the only facility which will be useful. Besides fear of the interference of the Revenue Department when arbitration fails is strong adversely in the minds of the agriculturists. The remedy will be on the lines of a long-term credit running up to ten years and non-interference in the form of summary proceedings from the Revenue Department in case of a final sale of property.

In cases where the agriculturist is in the hands of a money-lender, there should be some legal enactment that the lender should not be the purchaser of the holding either directly or indirectly. In case of a sale, a distinct provision should be made giving option to the agriculturist to redeem his land within five years paying back principal and interest at 5 per cent.

2. The principal crops of the district are grains, coffee and groundnuts. Coffee could be left alone. Grains, especially groundnuts, should have extensive co-operative effort directed to them. The agriculturist loses much in selling his groundnut crop, which has to be decorticated before a fair return could be expected. In its shell form groundnut rarely gets its legitimate value. The grower should have facilities to send his crop to a decorticator worked under co-operative system, and then in due time to have his crop sold after decortication. In the meantime he should be given an advance on his crop of about 70 per cent with the option given to the co-operative society to sell at the best opportunity with a minimum price fixed. The selling society naturally charges a commission, say, 2½ per cent, besides other overhead charges. This is a seasonal crop which lasts about three months. As the district produces roughly about 40,000 candis (500 lb.), under the best financing the crop will mean about Rs. 12 lakhs taking value at Rs. 40 to Rs. 45 a candi of clean machine-decorticated kernels. If sold by a central organization good prices could be secured as the big exporting firms will buy direct.

The Imperial Bank will lend money on groundnut kernels; but this facility is not much resorted to, as in the custody of the bank, which is in itself not a selling agency—sales are difficult to negotiate. The merchants are now, that is, since the Imperial Bank branch was opened, in a measure financed by the Multani, money-lenders who have branches or agencies in Salem, by means of hundis of 90 days' usance. The rate of discount varies from 9 to 12 per cent. These hundis are partly discounted in the local Imperial Bank and partly in Madras. Some have been discounted in Bombay.

4. There are no land mortgage or agricultural banks in this district; and there is no provision for long-term credits. Unless a sufficient long-term credit is given to the agriculturist he will not be benefited by the loan. To secure against loss and delay the shareholders should be held jointly liable. No long-term loan should be over 50 per cent of the value, and interest should be at about 6 per cent. For instance, of a eight-year loan,

interest and 12 per cent of the loan should be payable every year. In default of this payment or of at least 75 per cent of it in any three years the holding should vest automatically in the hands of the members, who should farm the land under proper supervision. Or in the alternative an automatic mortgage on succeeding crops should lie. To avoid summary proceedings which will affect the agriculturist and to avoid loss to the society by undue delay, man's innate self-interest and self-importance should be taken into account. There should be no coddling, neither should there be severity. The agriculturist will do his best to see that his holding is not managed by his neighbour.

The working capital of the proposed mortgage bank should be derived from (a) deposits and (b) central institutions financed by Government. Men in the district are not advanced enough to manage "debenture bonds."

6. In this district there is a large class of weavers, who live from hand to mouth. They borrow at rates of interest which works at a 100 per cent. They borrow Rs. 8 or in multiples and pay back a rupee a week for ten weeks. Their lot deserves a sympathetic and helpful treatment.

Cordage of fibre is in great and rising demand everywhere. Coir yarn of ordinary quality sells at Rs. 100 a candi of 500 lb. or 3½ annas a pound. Fibre ropes get a better price, about 25 per cent more always. If the agriculturist would plant all along his field ridges, and in waste land either sisal or Aloe Americana or Sansivera (Marool), which grow anywhere without attention, he could cut the leaves, ret and beat out the fibre and make binding cords during the off-time. The aloe or sisal besides yielding fibre will form a thick fence against cattle trespass.

A thousand plants in a year will give a minimum of 20,000 leaves at 20 per tree and yield at the lowest 20,000 oz. or 1,250 lb. or 2½ candis; or in money value Rs. 300. No machinery is required except a hand charka to twist the cordage and a hand hackler. This is a good source of income; and competition cannot enter this field for generations to come as the world supply of semi-hard fibre is far, far below actual requirements. America to meet this demand is making cordage out of paper pulp at a heavy cost. This is essentially a cottage industry as in China, or a big concern of thousands of acres of aloes with a central factory as in Yucatan and in East Africa. Both systems are prosperous. The pulp waste is a very good manurial agent being rich in lime, potash and phosphate.

III.—Indigenous banks.

1. To go to the root of things there is not sufficient money in rural districts for investment. The little money that is available as surplus in certain seasons is readily taken up for repairing the homestead, for improving the well or buying extra cattle. There is, besides, the demand as insistent as repairs, etc., the demand of marriages, vows and other social functions and a few jewels for the hard-working womenfolk. Those who can afford to spare over these expenses try to buy more land or to lend on neighbours' property on a good rate of interest. It is this super-surplus which should be induced out of the old rut into new healthy investments.

2. Post office savings banks are not attractive because the interest is small, only 3 per cent, the agriculturist does not think of the absolute safety, and the fact that money is available on demand. To him money lent to a neighbour at a good rate of interest is safe enough. He sees the borrower and his family frequently. This is security enough. Postal Cash Certificates work at 5½ per cent interest if kept for five years. This is not attractive because the investor has to wait for five long years to get the full benefit. He does not in this instance get a periodic interest, which is what he wants. He would be happy and satisfied if he could draw 5 per cent every six months and see his investment safe and intact besides. It will not pay Government to give interest at 5 per cent every six months. District organizations like co-operative credit banks and land mortgage banks could issue certificates with Government guarantee of the value Rs. 25 and in multiples carrying interest at 5 per cent, besides allowing these certificates to be benefited by the bank's profit. The investor under these conditions has a threefold advantage, viz., (1) sound security for the investment, (2) a good 5 per cent interest payable every six months and (3) a participation in the dividend of the bank.

These certificates should be made bearer instruments so that they could be easily negotiated in villages. This method is sure to attract capital to co-operative banks and land mortgage organizations. These certificates should be issued by the Provincial Governments and given to the district organizations as loans. The dividend will be payable by the issuing district.

4. Cheques will not be popular so long as the post office and treasury will not, as they cannot, accept private cheques. Government might as well revert back to the old regime and levy one anna stamp duty on cheques and make some money thereby.

5. Propagandism to popularise Government loans and instil a spirit of investing savings in productive undertakings will bear no fruit unless the agriculturist has a useful general education as a basis and feels himself a proud unit of the country.

Take a typical case, say, village A. If this village runs co-operative societies, say for (1) lending on property, (2) for lending on standing crop and sale thereof and (3) for supplying manure, cattle and agricultural tools and (4) another for stores, etc., the agriculturist naturally is expected to be a member in each of these institutions. He gains more and more knowledge by attending the various meetings and discussing details. He will know the trials of governing an organization without mutual give and take, and will soon become an efficient, peaceful and satisfied member of a flourishing community, doing his portion of the work if not cheerfully at least with self-satisfaction. The more he knows of co-operative work, the more he will make use of them to his and to the societies' benefit. A new type of schoolmaster must be sown abroad. I wonder if this is in the scope of the enquiry of your Committee.

**Written evidence of M.R.Ry. S. UNNAMALAI THEVAR Avargal,
Member, Taluk and District Board of Ramnad,
Thummusinnampatti, Mandapasalai P.O.**

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturist in my district obtains finance by means of marketing the produce of the crops cultivated by him. If he is in need of more money for expenses such as expenses during cultivation, permanent improvements, and for other special needs such as failure of monsoon and land revenue, etc., he borrows money from the indigenous banks such as joint stock banks and co-operative society banks, etc.

The average rate of interest which the agriculturist has to pay to the indigenous banker is 15 per cent per annum. The time fixed in the case of mortgage deeds is twelve years and for pro-notes it is three years. In the case of defaulters the bankers claim compound interest from the very time of his failure in paying the interest. So the defaulters ought to pay the interest due to a term at any rate, i.e., by means of borrowing the required sum in some other banks. Now the defaulter suffers much. Before clearing the whole debt he borrows money from various banks and thus he is unable to clear his debts. His landed property passes on into the hands of his creditors.

In co-operative banks they lend money for short periods, i.e., for one year. If a defaulter fails to clear his debts due to the society owing to failure of monsoon his properties are taken away by the society by court sale.

In my village a co-operative society was registered three years ago. Subscription had been collected from the members. But till now the society has not given any loan to the members. Societies of this type are working in this district. The poor people do not get any benefit by these societies.

Many of the efficient farmers in my district had been turned into tenants by their attempt in paying their old debts, and by growth of the debt by compound interest, interest not having been paid, etc.

So I think it necessary that institutions such as land mortgage banks and agricultural banks which provide long-term credit and could work to the advantage of the landholders and tenants, may be opened in taluk centres. Even though there are some sound institutions of that type in some of the important centres of this province, they are of no use to the village agriculturists.

**Written evidence of M.R.Ry. O. KRISHNAMURTI RAO Avargal,
Cotton Merchant, Adoni.**

I.—Agricultural credit and credit facilities for small industries.

1. There are three classes of agriculturists—(1) owner of large landed properties, say from 200 acres and onwards, (2) those who own between 100 to 200 acres and (3) those who own small piece of land from 5 to 20 acres.

In the case of the first, the large landholder, there is no need for him to go in for a loan to improve his land. The second generally does not borrow and in the case of poor yield of crops for successive years, say for continuous two years he would go in for a loan; even in such cases he very rarely resorts for a *takavi* loan. The third is a common ryot with small holding. It is only such poor ryots that seek for loans either from a money-lender of the village who is called a sowcar or from Government. In the case of ordinary cultivation in normal years he keeps sufficient quantity of seed unadulterated such as cotton seed. In the case of failure of crops in any particular year or due to insufficient yield he has necessarily to borrow grains and for paying kist as well as for cultivation. In the case of mere cultivation not for any material improvement he generally borrows seed for sowing. The method in which he repays seed that is borrowed for sowing is to pay 50 per cent more than he has borrowed. As for grains borrowed he pays 25 per cent of the same more in addition. The latter method is called *Lagu*. Generally the return is in kind. If he fails to pay in the first year the principal and the excess quantity to be paid will form the next year's borrowed capital until he finally discharges the whole dues.

Generally amounts are borrowed for permanent improvements such as for deep ploughing. In some cases they borrow in the shape of cash loans for which the lands are mortgaged. These amounts are raised from the richest landlord who is the sowcar of the village. They borrow at 12 per cent interest and it is not possible to borrow cheaper, through a money-lender, unless the village is within the limits of the co-operative society; if so, they could get the loans repayable in long terms. The interest is about 10 per cent. As for special needs such as digging up wells, etc., the ryots first attempt to secure a *takavi* loan. To obtain a *takavi* loan it would take at least six to nine months the earliest and the poor ryot should seek the favour of the Reddi, the *Karnam*, the Revenue Inspector and lastly the Tahsildar. If any one fails to recommend, the chances of getting a loan are far remote. Even in such cases no loans are recommended and granted if the ryot is already indebted to the Reddi or the landlord of the village who will be watching the movements happening from the first; he would secure his first charge on him and the balance left to the ryot will be after all a very small sum and in most cases the object for which the amount is believed to be utilized is frustrated. I am positive that out of a hundred cases there will not be ten who properly make use of the money for the purpose for which it was taken. Even in granting *takavi* loans the Tahsildars are particular not to recommend for fear that the party would not utilize the money properly and the Tahsildar may be found fault with later on. To obviate all further troubles the Tahsildars do not recommend. Even in cases where the Government grant *takavi* loans the amount is not properly distributed and the ryot has to shell out at least 10 to 15 per cent of the amount.

The rate of interest charged by the village sowcar varies from the normal 12 per cent to 24 per cent. There is no fixed period made by the sowcar excepting by the co-operative society who lend at about 10 per cent and fix the period, say from five to ten years. Loans of this kind are granted and the work done by the co-operative society is small, when compared to other provinces and other districts of the Presidency.

Government finance the agriculturists by *takavi* loans and by co-operative societies in a small scale; the agriculturists have no other support excepting the above two agencies.

2. The principal and the commercial crops that are marketed in this district are (1) cotton and (2) groundnut. Cotton from time immemorial was the chief crop that was grown in this district and the quality being stapled had a good reputation in the continent and it was for a long time chiefly bought by the exporters and consigned to the continent.

Cotton is grown chiefly in black cotton soil, the quality of which is decidedly superior to that which is grown in red soils, the latter quality being very poor in its staple and strappy. The latter quality was unknown to these parts till a few years back and the ryots took advantage of this by sowing in red soils as the other quality could not be grown and besides the crop comes earlier than the Hingari cotton by nearly three months. It so happened that the crop is marketed earlier and it enables the cultivator to realize the amount so that he could afford to pay the Government kist without borrowing. Another reason why this quality is grown is that the percentage of yield of this particular variety is nearly 33 whereas the Hingari, though it is decidedly superior, yields only 25 to 27. The third reason is that no sooner the Mungari cotton arrived the prices for several years was higher than what the Hingari fetched. The fourth reason is the yield of cotton itself is more than Hingari since the crop matures twice or thrice if rains fall. Ever since this cotton began to grow the superiority of the cotton known as Javari—called westerns—of these parts is gone owing to the admixture of the inferior variety.

A time is come now that there is a marked difference in the prices of Hingari or Javari cotton and Mungari cotton which corresponds to Oomras.

A major portion of the land owned by the ryots is chiefly sown by cotton and groundnut to the extent varying from 60 to 70 per cent and as such there is not much area left for raising food-crops such as cholam, bajri, pulses, etc. If perchance there is any failure of commercial crops such as cotton and groundnut, the subsequent year is presumed to be a famine year, for they have neither money nor fodder to feed their cattle. It, therefore, hits very badly the ryot who holds a small area and he begins to be indebted to a sowcar or a big landholder of the village.

Marketing system.—There are three classes amongst the ryot. The first is the biggest landholder who holds lands from 200 to 2,000 acres, the second owning about 100 to 200 acres and the third from 5 to 20 acres. The first can sustain successively for three or four famine years. He would naturally have a stock of fodder and grain sufficient for his maintenance for at least three years. The second can get on without borrowing and the third is badly hit. The crops raised by these three such as cotton and groundnuts are brought to the places where they have a large demand. The first, i.e., the biggest landholder who at present owns a number of ginning factories can gin his cotton and sell when he finds the prices abnormally high. He does not study the trend of the market and many a time he keeps his stock for years together if the prices were to fall and will rather lose heavily than sell during the period in question. He does not mind because he has not purchased the crop but grown and also for the reason that it does not tell upon him. The second class of ryots who own between 100 to 200 acres also bring direct to the market and also take chances like the former but do not want to keep for a long time and their risks will not be much but at any rate do not sell no sooner than the cotton is ginned. The ryot—the average poor ryot—who owns a small tract of land no sooner than he gets the crop tries to gin at least a small quantity for seed purposes and sells the rest to the village dealer who buys many a time at a higher rate than the rate prevailing in the market places for the reason that he hopes to gain more in weights and also makes payments to the ryot after a month or so if he could afford to wait. Most of these petty dealers who bring a large number of carts to the principal markets are being financed either by the big landholders of the village or by the *dalals* of the principal markets. They do business headlong, and in most cases

do not watch the trend of the market and consequently wind up their business themselves being in debt either to the prominent money-lender of the village or *dalal* and leave the place for good.

Cotton ginned or kappas known as unginned cotton is marketed largely to the principal markets such as Adoni and Bellary. In the former places when the season is in swing the arrivals will be from 100 to 600 carts per day. It was some years back when there were no ginning factories in the interior that most of the unginned cotton used to come for sale. In Adoni there is no regular market. The carts arrive and lie in the roads where the factories are situated. Petty dealers of the village bring large quantities and rarely the direct grower brings. The small grower could not bring himself for the reason that no sooner the crop is picked he must sell and pay to the money-lender who had advanced seed for sowing and takes 50 per cent more than he gave. That is the first mortgage which the borrower has to redeem and, if there is a surplus still which will be a small quantity, he must sell in the village only to the petty dealer to pay the interest to the money-lender if he is indebted previously. As such he will have no chance to bring the kappas to the principal market for sale. Big landholders and the middle landholders send their cotton ginned to the principal markets and sell through their commission agents or *dalals* according to their instructions. Most of the big landholders are interesting themselves in business and, as such, they have their own arrangements and the other ryots' cotton also is sold by these who act for them as commission agents. Kappas and cotton that arrive in the market of Adoni lie on the roads and all buyers congregate and buy through the *dalals*. There is no regular market system as in the Central Provinces or Berar. Formerly, some years before, the *dalals* used to auction the kappas or cotton and the highest bidder used to get them. The *dalals* had interest only in the transaction of the business. Now, all the *dalals* are buyers, they do not auction the kappas or cotton that come to them since they are interested. Even granting there are buyers who offer a higher rate they do not sell. They will bring a fictitious buyer and take the cotton or kappas with them. They will make the buyer to put heavy allowances or give more in weights and thus take the stuff themselves. Since all *dalals* are interested in doing business one *dalal* sells to another and as such they will have their share of business. This has absolutely prevented regular buyers from buying even if higher rates are offered. This has handicapped the exporter and the prominent buyer. The man who brings the commodity for sale in the market is being absolutely cheated. This system is detrimental to the interest of the trade and also to the grower. The *dalal* who gets commission should see that he secures the best price for his constituent and nothing else. Since there is no regular market this system is ruinous in the interests of the trade. Regular markets are to be introduced. All kappas and cotton coming to the markets have to enter first in the market. The *dalals* should be licensed. They should not be allowed to buy for their own account. Cotton or kappas of each *dalal* should be separately auctioned and the highest bidder should take. In the event of a dispute as to the quality there should be an arbitration board to settle it the very day and the buyers and sellers should abide by the arbitration. The arbitrators should be allowed some fees, otherwise there will be endless disputes. In Berar there are regular markets but still the system is very defective. The rules adopted by the Nagpur municipality are the best, i.e., to sell by means of auction. If the auction system is not adopted there is no chance for a fair transaction. It is happening even now in some of the best regulated markets that the *dalals* are being bribed or they get some commission per cart which amount is paid at the close of the season and even prominent exporters pay and thus they have a monopoly or control over the *dalals* who always sell to them even at lower rates for the reason that they get some commission. At present the *dalals* are the most dishonest persons in business.

Co-operative societies.—There are no co-operative societies in these parts and if at all there are any—there are one or two only—the business transacted by them is very limited. They must be organized on a large scale. A lot of spade work has to be done. The co-operative society should work with sufficient capital. They must advance loan on security of cotton, kappas, or groundnuts at a lower rate of interest than the *dalals* and the

money-lenders do. They should charge one half of the commission which the *dalals* are charging now. To prevent the petty ryot from borrowing from the local money-lender these societies should lend money to them when they are in need of it. These societies should themselves function as money-lenders as well as commission agents. Then only they will know the indebtedness of the ryot. If co-operative societies are properly organized there will be a check upon the *dalals*. It will also prevent the petty dealer from buying direct from the ryots. Co-operative societies of this kind should be at the principal marketing centres, having been well organized and manned by competent men. The increase in the number of societies in the rural areas has done no good to the agriculturists but has enabled the men on the directorate to recoup all their bad debts and in many cases fictitious persons are shown as debtors but the amount is consumed by themselves. Prominent marketing centres should have a co-operative loan and sale society with a large capital properly manned with competent and disinterested men and they should be properly remunerated. There should be inspectors according to the nature of work, who should visit villages and should find out who are in need of finance. Co-operative societies would do a very good business in inducing the grower to raise a particular variety of cotton unadulterated as thus they could keep the purity of the quality. They have to advertise or have to auction once in a week or fortnight, such of the cotton as is on hand. The present method of accumulating stocks in large quantities of several dealers would naturally take a considerable time and it is not known what the fluctuation of the market would be. It so happens many a time that in case of depression which may take place at any time the small grower would be hit very hard and may realize a less amount than he could have got, if he had sold at the spot. A reverse also may take place, the market may just rise rapidly and he may be profited. The co-operative credit and sale societies conserve selected varieties in large quantities to attract prominent buyers of good cotton who will be induced to pay good prices as they hope to get best stuff. No doubt this is true but it is always desirable to dispose of the cotton of the small growers weekly by auction sales. It is by this method and through the channels of the co-operative societies the small grower as well as the middle class ryots would be benefited a good deal by prompt sales instead of waiting for a long time. This kind of sale would also save him from contributing and paying godown rents and insurance charges. Further, in addition to any moneys borrowed on the pledge of the goods the grower will save the interest also. I have just enumerated the system prevailing in Adoni and what are the disadvantages that the trade is put to and how the ryot could not get the full price he is entitled to, in not having an honest *dawal* who would see that the cotton is sold at a reasonable price, having no interest in the business excepting his commission, have been exhaustively dealt with by me. Then I would like to point out the manner in which the business is conducted at Bellary.

At this place which is also a principal centre of cotton, all cotton is sold through the *dalals* who charge the godown rent and insurance charges and commission. The ryots are not satisfied with the manner in which the business is conducted and a lot of suspicion is cast on the *dawal*. The other commodity which of late has become one of commercial importance is groundnut. Groundnut is brought by the grower to the markets and sold by him through brokers who charge Rs. 1-9-0 per cent the buyers and similarly the sellers and thus they get Rs. 3-2-0 per cent which is too high and it naturally falls on the seller. If co-operative societies conduct sales on similar lines as cotton it is possible that the societies could be quite content with receiving only a commission from one side and thus the grower is benefited or the commission should be reduced by one-half making the buyer and the seller pay equally. Whatever the buyer pays will surely fall on the seller who calculates all charges. To put an end to all the nefarious methods adopted by the unscrupulous *dawal* wherever he is, there should be cotton markets well regulated on model lines. The *dawal* should be licensed and also the weighers. The *dalals* should only act as brokers to the growers or those that bring the stuff to the principal markets for sale, an annual fee is to be charged and only through the licensed brokers, buyers and weighers the business is to be transacted. The commission to the broker should be fixed. In the event any broker violates the rules of indirectly interests himself as buyer the licence for such *dawal* should be cancelled. *Dalals* or brokers should hold a licence and they should deposit

a sum of Rs. 1,000 and in case the licence is cancelled the amount deposited should be forfeited. All cotton and kappas that arrive in the markets should be put to auction and the highest bidder should take. In the event of there being a dispute as to the quality this should be settled by two arbitrators the very day or the next day. Whoever loses the point should pay the fee prescribed. Markets should be separately constructed one for cotton and the other for groundnuts.

Local people who are interested in the business raise the capital they require during the period of season by borrowing from money-lenders at rates varying from 9 to 15 per cent. The highest interest is paid according to the status of men. Amounts are borrowed for periods varying from four to eight months. There are money-lenders such as the big landlords of the village who can afford to lend large sums, (2) the Marwaris who have migrated from Central India and (3) the local midhis—what are locally called fund offices. The last-named, viz., midhis, generally during the slack season, will have a large surplus and lend to the borrowers in case of long periods at 7 per cent and for short periods at 10 per cent. Marwaris as a class do not lend at less than 12 per cent. Generally, people borrow from the Marwaris and pay even higher interest for the reason that their indebtedness is not disclosed. Of late the Multanis of different parts have been advancing moneys on hundis for periods of 70 days and 90 days usually at rates varying from 10 to 13 per cent according to the demand for money. It should be presumed that these people generally advance or give loans on hundis at 3 per cent more than the Imperial Bank. There are only two branches of the Imperial Bank of India, one at Bellary and the other at Adoni. The Bellary bank advances on produce such as cotton, kappas and other produce, keeping 30 per cent margin. The Adoni branch is also advancing similarly but the local dealers of Adoni have not resorted to it as largely as in Bellary for the reason that it has only newly been opened. But in the interior a very large volume of advances is being made. Clean overdrafts are given to most of the businessmen of Bellary according to their worth. The interest charged in all these branches is 2 per cent more than in the head office. If at any time the rate of interest in the head office is 8 per cent, the local branches charge 10 per cent. This hits a good deal several Indian merchants outside Madras. It thus enables an exporter to obtain loans at cheaper rates than others. All exporters who have their offices at the Presidency towns have not much difficulty in internal remittances, for, wherever there are branches of the Imperial Bank, drafts are discounted at a fixed rate for different places, say, for Madras at one anna per cent and for Bombay and Calcutta at an anna and a half per cent. At any rate in the case of a prominent firm who have large agencies they get their drafts discounted half an anna less than the others. Probably the banks give preference for the reason that they transact a large volume of business. Locally hundis drawn on Bombay are easily sold at rates varying from two annas discount to two annas premium for small sums, and for large sums at one anna discount. There is not much difficulty for internal remittances for the reason that in places where there are no banks the Currency Officer in Bombay or Madras will issue telegraphic transfers or supply bills at one anna premium.

3. The value of land varies according to the quality of the soil and the crop that could be raised on it. There are three varieties of the dry lands—one is called black cotton soil on which cotton and white cholam are raised. If these lands are proximately close to the village they fetch Rs. 100 to Rs. 200 per acre. If they are situated far off they could only fetch Rs. 100 on an average. These lands require timely and adequate rainfall; otherwise, there will be no yield; but they have the advantage of retaining moisture for a longer time than other soils. The second variety of pure alluvial sands—a mixture of black and white—is considered poor. Yet, they have the advantage that even with a slight rainfall the crops could grow. These lands fetch Rs. 50 to Rs. 100 per acre at the most. On these lands cotton, cholam (white and yellow) and other pulses are grown and these soils require rain very early. In red soils, of late, mungari cotton is also grown and groundnut as well. The soil contains an admixture of red earth and sand. It is easier to cultivate and especially it is both remunerative and productive. It is remunerative as the working expense and harvesting are low, and productive as it yields more of groundnut and mungari cotton and thus it has helped the poor ryot a good deal of late. Lands of this kind

that were neglected some years back are a boon, at present, to the holder. The prices of these lands vary from Rs. 25 to Rs. 50 according to the situation. The nearness of the land to the village fetches higher prices for the reason that it could be manured cheaply.

(a) Land in Government auction is chiefly bought by the big landholder of the village either the *Karnam* or the Reddi and in the case of the absentee landlords even the sale is not known. In most cases it is chiefly knocked down by the interested persons. In the case of court sale the lender would go to the court provided he fails to get the amount lent and by the time he obtains the decree and the possession of it it takes nearly three years after the filing of the suit at the earliest and after eight years after the amount was advanced. In such cases he will be forced to bid himself for the full amount and to take the land and by that time the land is not worth half the value.

(c) *Lands in purchase by private negotiation.*—If the borrower could not repay the amount it is sold to the lender and in such cases the borrower gets the full marketable value. If there are eager buyers, the land being close to theirs, the seller will get a better price.

II.—Indigenous banking.

1. There are no indigenous banks or persons who could be called as bankers in the district of Bellary excepting a few Multanis who have settled in Bellary, about three in number who do purely banking business. There is a particular class called Marwaris whose sole business was in banking only but who do business of late in yarn, cotton, and, besides, lend moneys to the businessmen for short or long periods.

2. The so-called Multanis or bankers transact business on the lines of banks and give loans to the traders chiefly for periods of say 70 days to 90 days on sight drafts repayable on due dates. They deduct the interest and pay the drafts for the amounts drawn. Agriculturists will not have any touch with these bankers and they have to resort to local men in the village or in the towns. The rate of interest charged according to demand for money varies from 9 to 13 per cent. The same drafts are pledged by the said bankers either with the Imperial Banks or other banks of Madras or Bombay, where they can raise loans on the pledge of the same at current rates prevailing in the Presidency town. Some of these bankers have clear overdrafts granted to them by the concerned banks. These Multanis make payments on railway receipts collecting from the concerned parties, besides charging a small commission of one anna per cent, discount rate on the draft or bills of lading. The said bankers as a matter of fact do not allow interest on the surplus money lying with them as they very rarely keep current accounts with the parties. In few cases they give only 4½ to 6 per cent on the balances. Since there is no benefit to the agricultural classes through such bankers, the co-operative banks should lend moneys on mortgage of lands recoverable in many instalments. The indebtedness of the agriculturist will be reduced if a bill on the lines of the Deccan Relief Act is passed. This will prevent the agriculturist from raising more money in the shape of loans on mortgage and the mortgagee knows full well that the lands are not saleable and so this is a bill that prevents the heavy indebtedness of the ryot.

In indigenous banking where amounts are advanced to the parties who have no properties though for the time being the banker may get the amount advanced, it is always risky as such borrowers may fail at any time. Consequently, due to high rates of interest and also the creation of an unhealthy competition the banker collapses very soon. Too many instances of this kind have been noticed. It so happens that most of the bankers advance moneys to one and the same party and it is possible for one thus to raise moneys if one has a mind. The bankers themselves volunteer and thrust on these borrowers to take moneys and the borrowers will be rotating moneys raised receiving from some and paying to others on the due dates. They thus make payments in such manner as to inspire confidence in the bankers who would be willing to give them double the amount voluntarily. This method will be adopted for some years and in

the course of a few years a sudden crash will come and the filing of "insolvency petitions". The banker when he loses does not feel the loss for he expects to cover it through some other sources since he gets higher rates of interest from such parties and makes a provision or a set off for such losses. The bankers have an advantage over others, for their working charges are comparatively low; secondly they could raise moneys on the pledge of these hundis on sight-drafts at a lower rate in the banks. Most of these bankers have their capital ranging from Rs. 2 lakhs to Rs. 25 lakhs and they have a very good credit in the banks.

III.—Investment habit and attraction of capital.

1. The banking resources in this province are practically very limited. The Imperial Bank is the only bank that has a number of branches of late. It is only the businessmen of firms that were in touch with them who are the people that have facilities and newcomers have absolutely no place. There are few exchange banks and also indigenous banks that have their offices in the Presidency and in important towns.

More banks are to be established and in the case of indigenous banks they could not compare themselves with the Imperial Banks as they have not enough of capital nor could they get deposit. This province is particularly a poor province and there is not surplus with the people to enable them to invest with the indigenous banks and in case there are few who could invest, they are terribly afraid to do so since they have no confidence in the indigenous banks. The indigenous banks that are opened in Madras and in some other places could not lend to the businessmen at the same rate as the Imperial Bank for the latter's resources are too many. The majority have no surplus savings and none feels the need of any facility. Such of those that have surplus immediately invest in the Imperial Bank for a long-term, say two years or more, as fixed deposits. The habit of investing in silver and gold is gone and probably that was the case some 25 years back when the cost of living was cheaper and the small savings that they could make they used to invest in the shape of gold or silver thinking that it could be treated as liquid assets. Now the income is small and the expenditure has risen disproportionately.

3. The money accrued by the sale of produce if it is in excess of requirements is generally lent out. The ambition of the ryot is always to increase his landed property and he lends on mortgage of lands with the object in view that in case the borrower fails to redeem his debts his lands could be snatched. In the case of others who by chance obtain large profits in a particular year they speculate largely and thus lose the little they have earned. As long as an individual trades, there is enormous risk and it never compensates. The only thing one would find is unhealthy competition and risky business.

4. The growth of cheque habit is not so common here as in other provinces. It is a very few people that resort to it and they live in metropolitan towns where there are banks. The only people that resort to using cheques are Europeans, traders, high officials and businessmen and none else. Cheques should be printed in the vernacular of the district where the banks are situated, as most of the people who carry on trade may not know the English language.

5. It is the duty of the Government to educate the people and make them understand that any new enterprise could be started in such places where there are raw products available. The duty of the Government is to invest one half of the capital for such undertaking so that it may inspire confidence in the public to invest their surplus moneys. In other countries surplus moneys do not lie in the shape of dead capital or fixed deposits with the banks, but they are invested in industrial enterprises. The people of this province are not so very enterprising, for there is no surplus with them and in cases where some enterprises are undertaken they have proved a failure. To start any new venture a careful and special study has to be made beforehand and there should be a very large surplus money for carrying on the business as rolling capital. Business cannot prosper the moment it starts to work but it takes some time. The concern should be in

the hands of the specialists who come out to India at the expense of the Government and they should manage the business, say for five years, on reasonable salary.

The opening of the new branches of the Imperial Bank of India.—It is not known how far it has benefited the public excepting those that had access to them. The banks do all the exchange business, they buy or sell drafts and get their commission for both. They collect moneys on railway receipts or bill of lading. The opening of the branches enable the middle class of businessmen to take loans on produce. This may be good or bad. If a man with a capital of Rs. 5,000 can raise a loan of Rs. 20,000 from the bank, the fluctuations are so very violent in many of the cases that they may profit him or ruin him. At any rate the banks do not lose. No sooner do they find that the prices have gone down than they will ask for margin; if it is not paid, they sell immediately. If per chance the borrower had borrowed even the initial capital of Rs. 5,000, it is the man that first lends who suffers loss. Clean overdrafts could not be had for all and it takes a pretty long time to get them sanctioned and the favour of so many is wanted. The opening of the branches of the Imperial Bank has to some extent helped the small dealer who was paying some premiums for discounting notes for specie. Further, the branches of the Imperial Bank help a good deal the exporting firms as they could get money at any time they like since they have credit or letter of accommodation.

Written evidence of M.R. Ry. C. H. L. NARASIMHA RAO Avargal,
 Secretary, the Southern India Merchants' and Manufacturers'
 Association, Limited, 93, Godown Street, Madras.

III.—Investment habit and attraction of capital.

The value of joint stock or co-operative banking as a means of developing the investment habit is very doubtful; and in our opinion, nothing can beat out the Postal Cash Certificate in its results. It may be that there is opposition in interested circles that these Certificates besides giving a high return of interest are gilt-edged securities and that private banks cannot afford to compete with the Government. But at the present stage of development and enlightenment, nothing will appeal to the masses so much as these Government Certificates. Banks and other enterprises will not be able to achieve the same measure of success and they cannot inspire the same amount of confidence. With greater development of banking, on sound lines after the lapse of a few years any necessary alterations might be made in the issue of these Certificates. At present the Cash Certificates are not very popular; and through efficient and intelligent advertisement and propaganda they can be made very popular with the public. When once this is done efficiently, funds to an unlimited extent will be forthcoming. We feel very strongly on this matter and if an opportunity is given, we are prepared to do whatever is possible in popularizing the same.

Banking business proper has got many other ways in which to get on other than receiving fixed deposits at low rates of interest and granting loans on personal security or on movable and immovable properties. The other functions of bankers which are so vital and necessary for our business progress must needs be introduced in all banking enterprises and profits made therefrom. There is no competition from Government along these lines and herein lies the success of indigenous banking in India. Bankers are undoubtedly the shrewdest of businessmen and there is no reason why they should not exploit such sources with advantage. Their opposition is meaningless under the circumstances and their arguments are unconvincing.

**Written evidence of M.R.Ry. V. VASANTHA RAO Garu, B.A.,
Pleader and Chairman, Municipal Council, Proddatur.**

I.—Agricultural credit and credit facilities for small industries.

The agriculturist in this district borrows money for his expenses during cultivation, for other special needs, for land revenue, etc., at the rate of 12 per cent per annum. He does not mortgage the crop but enters into an agreement to sell the produce at a fixed rate after the harvest is over. This causes inconveniences to the agriculturist who is bound to sel. his harvest to the money-lender or sell them at the market rate though the market is not favourable, to discharge the debt.

The Imperial Bank does not lend money to these agriculturists except after harvest, when the produce is deposited in the godowns and on the security of which the loan is granted. It does not grve any loan in the earlier stages of the cultivation, for example, for the purchase of seed grain, manure, cultivation expenses, etc. The agriculturist has to look only to the money-lender for this. If agricultural banks are opened, they will help the ryots. The Imperial Bank does not lend money freely except to approved customers. It does not benefit the ryot. I would suggest the *broker system* being introduced in all the branches so that on the security of the broker loans may be freely granted.

I am of opinion that, if more Government-aided banks are opened, it will help the borrower, and will induce rich people to deposit money in these banks and the thrift habit will be encouraged and the hoarding habit discouraged. That the Government has also aided these banks affords a guarantee and an inducement to the public to take advantage of it. These banks might be useful to industrialists.

**Written evidence of M.R.Ry. PHILLIP J. CHANDRAN Avargal,
B.A., Registrar of South Kanara, Mangalore.**

1.—Agricultural credit and credit facilities for small industries.

1. The cultivating tenant or a landed proprietor who himself cultivates the land obtains loans for purposes mentioned in—

(a) by hypothecation of growing crop or on promissory notes from money-lenders at a high rate of interest;

(b) and (c) by mortgaging rights in his immovable property.

Rate of interest.—When the advances are small, the rates vary from 12 per cent to 18 per cent. The period is one year or from one harvest to the other.

Security.—The security furnished is either personal security, produce, crop or jewels.

Other conditions.—The interest on the amount borrowed is paid in advance. It is only the balance which the borrower gets.

Financing agriculture by various bodies.—The Government, as seen from the statements furnished by the Revenue Departments, have helped the agriculturists by the grant of loans under the Agriculturists Loans Act and the Land Improvement Loans Act.

District.	Year.	Number of loans under the Agriculturists Loans Act.	Number of loans under the Land Improvement Loans Act.
South Kanara	1926	169	40
	1927	19	47
	1928	6	27
Triennium total		184	114
Previous triennium ..		878	140

The larger number of loans issued during the last triennium may probably be due to the heavy floods of 1923 and 1924.

The Imperial Bank.—I have no information about the part played by this agency in agricultural finance.

The joint stock banks.—Including the Mulki Bank, Limited, which I registered lately under the Indian Companies Act there are ten joint stock banks in this district. Most of them are concentrated at Mangalore with branches in the trading centres at Udipi and Coondapoor, and are not directly in touch with the agriculturist in the country side.

Co-operative banks.—The central bank at Mangalore according to my information finances co-operative credit societies which in turn finance the agriculturist on a small scale.

Indigenous banks.—There is one private bank called the Arur Bank established near Brahmawar which, I hear, helps the agriculturist. But the area of its operations is very limited. The Multani Bank provides capital for traders. There is one indigenous banker called "Manel Naicks." But I do not know whether they advance money to agriculturists except on mortgages of immovable property.

Estimate of capital.—This is not a question which can be answered easily. An idea of the indebtedness of the people of this district may be gathered from the statistics furnished against question 5. Whatever be the estimated amount of capital required for financing agriculture due notice

will have to be taken of the existing indebtedness of the people and safeguards provided in order to prevent the capital raised for the above specific purpose from being diverted towards the liquidation of debts instead of directly helping agriculture.

Defects in the existing system.—The elaborate procedure preceding issue of loans by Government under the Agriculturists Loans Act and the Land Improvement Loans Act and the consequent delay act, I understand, as a check on the applications for such loans. The ordinary agriculturist knows very little about the Imperial or other joint stock banks, which are mostly concentrated in towns. The professional money-lender is within easy reach and easily accessible.

Remedy.—If the Imperial Bank or the joint stock banks appoint agents for each village or group of villages on salaries or commissions who can thus come directly in touch with the agriculturist, it is possible that the latter may go to those agents instead of falling into the hands of the heartless money-lenders. It is unnecessary to open branch banks as the building and establishment charges will involve the banks in heavy expenditure. Such buildings and establishments generally prevent personal contact between the bank agents and the agriculturists.

Co-ordination.—There is no co-ordination among the various credit agencies. There may be some co-ordination of effort between the Government and the Imperial Bank. But I know of none between the latter and the other banks. If joint stock banks can obtain money from the Imperial Bank on easy terms, it may be possible for the former to finance trade and advance money at a lower rate of interest on mortgages of immovable property by the agricultural classes.

2. The principal crops in this district are:—

- (i) Paddy.
- (ii) Coconut.
- (iii) Arecanut.
- (iv) Pepper.
- (v) Cashewnut.

As regards (i), (ii) and (v) local dealers purchase them and transport the surplus to the coast towns for export by sea or rail. Arecanuts are generally brought direct to the town and sold to wholesale dealers. Pepper is an export produce which either the European firms or the Indian merchants purchase from the producers either directly or through brokers and ship abroad.

Formation of pools and of co-operative effort.—Formation of pools may help the producer but not the consumer. I do not think that in a country divided by castes and creeds, common aims and combined efforts in pursuance of such aims can be looked for in the near future. Mutual confidence is wanting. Societies on a co-operative basis will be a very useful instrument for marketing produce as they would serve to eliminate middlemen and would bring in a larger income to the producers. I have read of the great work done by societies of this type in an agricultural country like Denmark. But what I doubt is whether men with business ability, selflessness and a sense of responsibility can be found in sufficient numbers in rural centres to take up the management of such societies. The shareholders should know to choose men of ability and character as directors of the societies. The directors in turn should know the value of team work. It is disinterested workers who are wanted. At this stage of India's advancement I am not sure whether marketing societies could be formed and financed liberally by banks and worked successfully without being assured of official control and supervision. If a society could be formed in a rural centre which is the headquarters of a responsible Government official who could be trusted with the custody of money and produce, it would be possible to form a society able to inspire confidence. An experiment may be made at one or two centres in each district.

Credit facilities in marketing produce.—Merchants or dealers are advanced by joint stock banks, amounts varying from 50 to 65 per cent of the market value of their stored products during the months of May to September when sales are scarce and shipping is at a standstill. Open loans are granted by banks to approved customers. Shut loans are granted to others, the products being kept under the supervision of banks.

Internal remittance.—Bank drafts, cheques and telegraphic transfers through banks are the means chiefly employed for internal remittance:—

Defects in the existing system. }

Negotiable instruments and internal trade suggestion.

Hundis—different classes.

Amendments to Negotiable Instruments Act.

Discounting of hundis.

Ownership of goods—Instruments evidencing.

Different kinds of such instruments.

Different kinds of such instru-

Licensed warehouses—operating, need for Government assistance. }

I regret that I am unable to offer my remarks on these subjects as I cannot claim intimate knowledge of them.

3. (c) Land fetching an income (rent) of five or six *murahs* of rice (Rs. 30 to Rs. 35) was worth Rs. 1,000. But the value of land has gone down by half. If the land should fetch a value of Rs. 1,000 it should bring in a rent of 10 *murahs* of rice.

4. The marumakkathayam system of inheritance in the Malayalam speaking area of the district, and the Aliyasanthana system in the remaining parts of the district prevalent among the landed non-Brahmin classes, discourage advances on mortgages to those classes.

There are no land mortgage banks in this district. I have heard of the proposal to form such a bank in Puttur. But it has not yet materialized.

Long credit, easy repayments and low rate of interest should be the feature of a land mortgage bank.

Measures—suggestions.—(a) No record of right has yet been introduced into this district. Until the resurvey operations followed by resettlement are complete and revised A registers are available, it would not be possible to introduce the system into this district. The subject is under discussion.

(c) The costs of reference to registration records are far from prohibitive. Considering the labour and expense involved in transcribing copies of documents presented for registration and maintaining subsidiary records for easy reference, the fee at present charged for obtaining certificates of encumbrance is very light.

Working capital for the proposed Mortgage Bank.—(a) to (c) The capital should largely be obtained from deposits. Care and sense of responsibility will then characterise the administration of funds obtained from deposits by the people of the area served by the mortgage bank. Funds from central institutions or raised by debenture bonds will not be administered with equal care and sense of responsibility.

5. (a) The following are the figures regarding indebtedness in the district furnished by the statistics maintained by our department:—

	1926.		1927.		1928.	
	Number registered.	Value.	Number registered.	Value.	Number registered.	Value.
		RS.		RS.		RS.
(i) Mortgages of immovable property of Rs. 100 and upwards.	6,852	76,72,622	6,242	62,59,776	6,279	63,44,618
(ii) Mortgages of value less than Rs. 100	612	31,460	514	26,392	510	27,532
(iii) Personal bonds. . .	1,222	12,86,185	1,078	8,38,390	1,178	10,35,837
(iv) Mortgages and sales of movables.	793	1,07,917	596	91,329	611	90,352
Receipts of money due under mortgages.	2,478	22,05,785	2,438	20,57,551	2,643	22,42,920

The mortgages (i) and (ii) include also security, indemnity and maintenance mortgages where cash does not pass from the mortgagees to mortgagors. But such mortgages are not of frequent occurrence and therefore do not appreciably bring down the indebtedness expressed by the figures.

(c) *Debt incurred against other assets.*—No separate statistics are maintained for mortgages of houses. Ploughs, ornaments, agricultural implements, crops and produce are movable properties. Figures against 5 (a) (iv) include sales of movables also. Personal bonds 5 (a) (iii) are bonds where no properties, movable or immovable, are mortgaged or pledged. Debts are incurred for purposes noted as items (a), (b), (c), (f) and (g). I have rarely come across documents where purposes (c), (h) and (f) were specifically recited.

Creditors.—Banks, co-operative societies, indigenous bankers and professional money-lenders lend money for the purposes mentioned above.

Rates of interest.—Joint stock banks charge interest from 7 to 10 per cent according to the condition of the money market and the rate of the Imperial Bank. Professional money-lenders charge interest from 12 to 18 per cent.

Calculation of interest.—Interest is charged and collected every three months by joint stock banks. In default overdue interest on unpaid interest at 10 to 12½ per cent will be charged and collected by them and at 9 per cent by the Imperial Bank.

Enforcing payment.—In case of moneys advanced on produce, goods, jewels, etc., recovery is effected by the sale of such produce, goods, jewels, etc., after due notice to the debtors. In other cases the law courts are resorted to.

Effect of enforcement.—The farmers are faced with increasing poverty and are at the mercy of the money-lenders. The incentive to cultivation is lost when the cultivator cannot enjoy the fruits of his labour.

6. *Subsidiary industries.*—Rice-milling, gur-making, jaggery manufacturing and vegetable growing are probably the only subsidiary industries in this district.

Methods for better return.—Co-operative marketing societies may step in to enable the farmer to get a better return for his produce.

Employment to supplement income.—Dairy farming is a remunerative business if fodder is available. Milk, butter and ghee are very much in demand. Coir-making is also a profitable occupation if rivers or streams are near by. The "Charka" is proclaimed to be the panacea for all evils. I do not know how far it will solve India's poverty unless *khadder* is worn to the exclusion of all other cloth by the majority of the people. It is an Utopian scheme.

Working capital.—Co-operative societies can be of great use in providing small capital for financing these industries.

6. (a) *Hand-loom industry.*—This district has profited greatly by the improved methods adopted by the German Mission Weaving establishments. The quality and variety of cloth produced on the handloom on the West Coast have earned a reputation throughout India. The industry would thrive if the yarn and dye used are of superior quality and the stock of manufactured cloth is not accumulated.

Fisheries.—Dry fish find a ready market in Colombo and Japan. If there is a co-operative marketing agency, larger profits may be expected by the weavers and fishermen. Metal workers are few in this district. If goldsmiths, blacksmiths and coppermiths are metal-workers, a larger number of people will find a living by these professions. If the metals with which they work are made available to them at cheaper rates by co-operative stores larger earnings would be possible. The weavers (by caste) are a very poor community as a general rule. They do not take to modern methods of weaving. They are to be educated in the art. If yarn is provided for them at cheaper rates and the output taken over by co-operative marketing agencies, their perennial poverty may to a great extent be relieved. It is at present a cottage industry finding employment for both men and women.

7. Banks, mutual relations.—Co-operative banks are not financed by joint stock banks or the Imperial Bank so far as my information goes. The former have no business relations with the latter. Co-operative banks have, however, accounts with other banks.

Co-operative societies.—I am not in a position to state what difficulties are felt by societies in regard to short and long-term capital.

Financing extra capital.—This district has about 542 registered co-operative societies now working. Registration of 55 societies has been cancelled. It is not possible for me to say what extra capital would be required to finance the co-operative movement in this district.

Competition.—I am not aware of any competition between co-operative societies and joint stock banks. The amounts advanced by co-operative societies are small compared with those advanced by joint stock banks. Long-term loans are not as a rule granted by joint stock banks.

Financial concessions.—I am not in favour of further financial concessions to the co-operative movement. Concessions or privileges carry with them responsibilities. Have societies appreciated the concessions given to them responsibilities. Have societies appreciated the concessions given to encouraging answers to these questions. Concessions have a tendency to be regarded gradually as rights. Concessions should be withdrawn when abuses occur. The movement is old enough to take firm root by its intrinsic merit without the help of further concessions.

II.—Indigenous banking.

1. Indigenous bankers in this district do most of the business of other banks except that of receiving deposits.

2. An indigenous banker is master of his money. He has no rules to obey and no directorate to control him. He can charge any rate of interest or forego interest. He can fix a term, extend or reduce it. Being more accessible and free, he has clients, and he finances trade and agriculture. He may advance to industries provided the borrower has personal assets to meet his liabilities.

3. (b) He does business. But I am not able to say what its volume is.

(c) Very little is spent on establishments.

(d) Indigenous bankers have credit with joint stock banks at concessional rates. Money is advanced to them when sureties are provided.

5. Interest is deducted in advance when loans are granted on personal securities. They have their own money supplemented by loans from joint stock banks.

6. The agriculturist pays at present the minimum rate of $12\frac{1}{2}$ per cent.

Reduction of rates of interest.—Reduction of rates is of course a relief to the agricultural community. But unless loans are repaid with a fair degree of promptitude and without recourse to coercive measures, there is little encouragement to reduce the rates of interest. Whether reduction of rates can have the benefits hoped for is a matter for trial. Unless Government have institutions of their own and are prepared to take the risks which the indigenous bankers take, it would not be easy to reduce the rates of interest.

7. The indigenous banker is an autocrat. If he is a benevolent autocrat he is liked. Otherwise, he is hated. There is no special protection provided for indigenous bankers nor do I think that any special facilities conferred on them would benefit the borrowing public.

8. I do not know how, when interest is deducted in advance by mutual agreement between the lender and the borrower, the indigenous banker can be brought to book for charging exorbitant rates of interest. Where interest is not paid in advance the banker may be prevented from charging such rates if the courts decree a reasonable rate of interest. The fear of higher rates of interest, however, ensures prompt repayment of loans. When

the fear is taken away from the mind of the borrower by measures intended to protect him, the indigenous banker will never grant loans unless interest is paid in advance. I fear that it is difficult to bring the indigenous banking system under control. All that could be done is to direct that the Imperial Bank should refuse to grant loans to indigenous bankers who harass borrowers by charging high rates of interest and also to joint stock banks who help such bankers.

11. I am not in favour of helping the indigenous banks or bankers so long as their dealings cannot be brought under control. I would welcome measures to help joint stock banks who are under the control of Boards of Directors who in turn are subject to the control of the shareholders. I do not know if a central reserve bank, an expression which I meet for the first time, is an institution separate from the Imperial Bank.

Branch banks.—As stated in my answer to question 1, Part I, what was wanted, is not branch banks but bank agents or sub-agents of the central reserve bank or joint stock banks who should take up their stations in the defined areas as small as possible. Their mission should be to get in to touch with the merchant, the trader and the farmer, to know their needs, their assets and their liabilities and to serve them faithfully. Those agents must be men of character and high integrity devoid of communal bias. The indigenous bankers may compete. Unhealthy competition would not be possible as long as the agents are under the control of the central reserve bank or joint stock banks. It would not be possible for the indigenous banks or bankers to take advantage of the man in need, when the choice is left to him to avail himself of the reasonable terms offered by the agents of the central or joint stock banks.

12. *Capital whether idle.*—I am not in a position to state whether capital remains idle with the indigenous bankers. But their borrowings from the joint stock banks indicate that their resources are not sufficient to meet the demands. If money in the hands of indigenous bankers finds no employment on account of the easier terms offered by joint stock or reserve banks, it may find its way to those banks. If that state could be reached, we have partly reached the goal.

III.—Investment habit and attraction of capital.

1. This district has ten joint stock banks with limited liabilities. They have a paid-up capital of Rs. 8,89,490 and deposits amounting to Rs. 76,90,910-11-1. The total reserve fund amounts to Rs. 5,68,331-14-2. If the total mortgages registered are a standard for estimating requirements the statistics already furnished against question 5, Part I will give in some measure the amount of additional capital required. Part of that capital may reach the banks when mortgagees deposit their money in them.

Institutions encouraging savings.—The joint stock banks which have attracted paid-up capital and deposits aggregating nearly Rs. 86 lakhs provide a place for safe investments.

Joint stock companies furnish a field for investments. The total paid-up capital of joint stock companies other than banks in this district amounts to Rs. 2,04,826 as on 31st March 1929.

Government savings bank.—Co-operative credit societies, the Imperial Bank, life assurance companies and chit funds attract savings. In rural parts post offices and co-operative credit societies are the institutions which attract savings at present.

Investments in silver and gold.—The craze for investments in jewellery is very much in evidence in this district. There is also a great demand for precious stones. Women are mostly responsible for this form of dead investment. Among the educated girls there is observed a tendency for muff chains in place of the ugly necklaces adorning the elder generations. With the growth of education among women the ruinous practice of sinking money in jewels may gradually assume normal proportions.

2. Savings banks.—I have heard no complaints against the post office in this branch of their work. It is mostly the literate classes who invest money in savings banks. I do not know whether it is necessary to attract other classes to savings banks at a period when other fields of investments are gradually opening up. I do not know of the existence of any dissatisfaction in this district with the Government on account of the Postal Cash Certificates and treasury bills. It may be that savings which would otherwise have gone to the banks for financing trade and commerce are diverted to Government coffers.

3. It would take a long time for the farmer to understand the value and usefulness of purchasing Government securities.

Existing facilities.—I am not aware of any.

Habits, uses.—The general tendency is to invest money in immovable property. When money is scarce, the value of land goes down. When it is in abundance, the value goes up. Investments on the security of immovable property are favoured.

House building.—There is a strong desire to build new houses or to improve existing ones. There is a competition in the building of houses. One wants to rival the other in the amount of outlay on houses. Very often the savings are exhausted when houses are completed and their upkeep afterwards becomes a burden.

Ornaments.—No class is free from this vicious habit of investing money in ornaments.

Litigation.—Members of the Bunt community are specially keen on litigation.

Cock-fighting.—Betting is common in this form of recreation. The Bunts (the landowning classes) are very fond of betting.

Social and religious ceremonies.—Marriages consume a great deal of money. The Brahmins suffer greatly. The dowry to be paid is very often exorbitant. Clothing and ornaments contribute a large share to the expenses.

Drink.—The non-Brahmin classes and Christians squander their savings partly in drink.

Hoarding.—This is a habit which is slowly dying out.

Loans.—Agriculturists receive from their fellows or from the proprietors of the soil the seed necessary for cultivation and paddy for payment of wages. If one *murah* of seed or paddy is taken two *murahs* are to be returned at the time of harvest.

Investment of surplus money.—The answers to the previous question are applicable here also.

4. Cheque habit.—Those who have deposits in the Imperial or joint stock banks use cheques. Bank drafts are also growingly in use for internal remittance.

Stamp duty abolition.—I am not aware of the effect.

Payment of Government servants by cheques.—It would be a useful innovation. But it would be inconvenient for the officers living in the rural parts.

Vernacular scripts.—The proposal is worth a trial.

5. Banking and investment habit.—I think it is a matter of slow growth. Investments in immovable property or in ornaments is considered by the moneyed classes as the only safe form of investment.

Causes.—(i) The belief that money is safe in one's own hands.

(ii) The unreliable character of the men with whom money may be entrusted.

(iii) Ignorance that money if made available can be profitably used for the good of the country.

(iv) Liquidation of joint stock companies started with great hopes but which failed on account of the incompetence of managing directors and for want of effective supervision or check by shareholders.

(v) Want of business training and technical knowledge in men who pose themselves as experts in specific industries.

Suggestions.—Floatation of joint stock companies subsidised by Government which should further provide European and Indian officers with special qualifications for the attainment of the objects specified in the memorandum.

Restrictions on joint stock companies of purely foreign origin. No foreign company should be permitted to operate in India unless a certain proportion of its shares are taken up by Indians and unless its directorate contains at least one or two Indians though in a minority. It would be a good training ground for Indians.

Companies registered in England, dominions, colonies or foreign countries should be re-registered in India with obligations to file with the registrar copies of balance sheets, annual list and summary and mortgages or charges.

Amendment of the Indian Companies Act so as to give to Government greater control over the activities of joint stock companies.

Propaganda.—I doubt very much whether the income from loans to Government for capital expenditure would be sufficiently tempting for the moneyed classes when joint stock banks declare larger dividends and pay higher interest on deposits.

Bank branches opening.—This district continues to have only one branch of the Imperial Bank at its headquarters in Mangalore.

Written evidence of the Presidency Postmaster, Madras.

III.—Investment habit and attraction of capital.

The questionnaire relates to matters outside the scope of the post office except those relating to the post office savings bank and Cash Certificates. Having been in Madras only for a short period and being new to this part of India, I do not think I can offer any valuable suggestions on other subjects except the above.

2. Postal Cash Certificates are not very popular because they can only be resorted to by people who can allow their money to be with the Government for a fairly long period, i.e., full five years. This investment is not in favour with the public as no bonus is allowed during the first year of purchase. If this defect is removed and bonus is declared monthly instead of quarterly as at present and the purchase price is lowered slightly, there is every probability of the middle class people also resorting to this.

The savings bank as it stands at present, does not afford much facility to the public especially for the reason that the number of withdrawals that can be made within a week is restricted to only one. If this number and the rate of interest as well as the annual and maximum limits are raised, there will be, in my opinion, an appreciable increase in the number of savings bank transactions as the post office is held in high esteem.

Postal Cash Certificates are generally resorted to by the rich class only and the savings bank both by the rich class and the middle class as well.

The rate of interest on Postal Cash Certificates does not appear to be higher than that allowed by other banking institutions and bankers for the amounts deposited with them and as such it cannot be said that the Government holds any competition with banking institutions and the investment in the post office is only preferred, because it is more secure as it is managed by Government.

3. Regarding Government securities, I am of opinion that the public are satisfied with the present facilities offered except that the limits prescribed for them are low. The prescribed limits therefore need enhancement.

**Written evidence of M.R.Ry. M. BHEEMASENA RAO Avargal,
President, the Adoni Co-operative Loan and Sale Society and
the Co-operative Town Bank, Limited, Adoni.**

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturists in this district borrow money for cultivation, land revenue and failure of monsoon from mostly commission merchants to whom they bring their agricultural produce for sale on commission and they borrow from regular money-lenders, mostly professional people in the town, and in rare cases from big Reddis or sowcars in the village for capital and permanent improvements.

The rates of interest vary according to the locality and the status of the party. Ryots who borrow money for cultivation and land revenue on promissory note, account *khatha* and simple registered bonds are charged from Re. 1 to Rs. 2 per cent a month and ryots who borrow on land mortgage are charged from As. 12 to Re. 1-2-0 per cent per month. Besides these, petty ryots borrow from other cultivators or patels or influential ryots in the village on the basis of kind. To give an instance, a ryot, of course, poor, borrows 4 *aravis*, each *aravi* measuring 32, when his stock of grain is exhausted. After four months at the time of the harvest he has to give five *aravis* failing which he has to pay a penalty of eight seers for every *aravi* on the following New Year's day. Secondly, a man borrows one rupee and he has to pay at the harvest time one scale, that is, 2 *dhadas* or 12 lb. raw cotton, i.e., cotton with seed. This is worked at about 6½ per cent per month. Of course, loans are taken for specified months but there had not been one instance when the whole loan was cleared. The interest will be added to the principal and this will go on till eternity from father to son and grandson. Last year one of our local very rich patels had to write off Rs. 40,000 under bad debts.

The Government so far has not played any part in financing the agriculturist except through the *takavi* loans. The relief given through the *takavi* loans is negligible and the ryots complain that the terms are harsh and the full benefit is not realized by them. The Imperial Bank, joint stock and co-operative banks have not helped the ryot so far except few middlemen between the villager and the firms in the towns. Money-lenders by profession and commission agents are the principal sources through which the villager is financed at present.

2. The principal crops of the district are cotton, groundnuts, cholam and korra. The present system of marketing kappas, cotton and groundnuts is that the villagers bring their produce to the commission agent at Adoni who sells to the European and Indian firms on commission. The commission agent charges Re. 1 for one cart of kappas (3 docras or 45 local maunds) and Rs. 2 for one cart of cotton weighing 48 maunds apart from sample which goes scot-free, customary allowances and a number of other charities. Besides, he is cheated in weights and the prices will be unnecessarily reduced after the cotton is taken to the buyer's compound. The commission agent charges three pies in the rupee for groundnuts and other grains apart from so many allowances deducted for clerks, *dharmam*, etc. The forming and successful working of pools on a co-operative system is the only way to get out of the difficulty. The present co-operative societies are the only way to get out of the difficulty. The attitude of the Government towards the co-operative movement is stepmotherly. The present co-operative societies are neither owned by the public nor taken care of by the department. The co-operative loan and sales societies must be established in all the principal centres of business. Rural credit societies must have sufficient money to pay the cultivators who will be bound by an agreement to take all their produce to the credit societies who will in turn send the produce to the loan and sale societies who will dispose of the goods at the best price in big lots at a favourable time. It has been found by experience that the lots of cotton sold in public auction have found good price. The ryots will get then correct price and weight and much of his time is saved

which can be utilized for agriculture or cottage industries. The above system can be worked only if the agricultural indebtedness is removed and he is free from money-lenders or his commission agent.

6. There is no subsidiary industry supplemental or allied to agriculture in our district or taluk. Of course, there are few cotton presses and ginneries in this taluk but relief is given to very few. The only subsidiary industry which is in tune with temperament and which can be made universal giving supplementary income to all and at all times is handginning and hand-spinning cotton. The agriculturist has eight idle months before him every year. He has any amount of raw kappas. The art of handspinning and handginning is known to him from time immemorial. He wants his cotton seeds for his cattle and sowing purposes. There is the country carder, country weaver. Finally he requires cloth which is as much essential as his food. The rural co-operative societies may be entrusted with the working of this industry. Before they are entrusted, one society under the name of the co-operative handspinning and handweaving society may be established in every one of the revenue firkas under the care of well-trained men in this art. They must be financed amply. All the accessories, such as handginning machines, spinning wheels, spindles, testing machine, count-knowing scale and slivers, must be stored. The society must be prepared to take back the yarn and pay them the wages. The yarn must be woven in the village itself. The cloth must be woven to the taste of the people of the locality and its surroundings. This will give work not only to the spinner but to the ginner by hand, weaver, carpenter, dhobi, blacksmith, dyer, printer, country ginner and salesman. The co-operative societies may be entrusted with this work generally but the model societies must be worked by the Government just like any Government dairy farm or agricultural farm. Separate industrial banks may be established throughout the Presidency which will finance all the model spinning societies and other rural co-operative credit societies which have undertaken non-credit work of handspinning and weaving.

except what the itinerant merchant tells him. The speculative merchant of the mercantile centre often gives the producer a wrong idea of the state of the market; whenever prices are rising, the producer is advised to sell the goods forthwith to the merchant; if prices should be falling the goods are left with the merchant hoping for better days, very often resulting in a dead loss, as the merchant knows when to buy to his advantage. Often the producer is powerless to dictate his price, as he had taken advances from the merchant promising to supply goods and also he is in need of ready money to purchase his necessities.

Thus it will be clear that co-operative effort in marketing the crops is absolutely necessary. The scheme must be to first advance money to the agriculturist at times of need and realize the same by selling his produce at the best market. The agency must, to start with, be one experienced in the sale of these goods to stand the competition of the merchants at the same time. Otherwise, the scheme will be a failure. Such an agency must not only sell the goods but also educate the ryot as to the best market for his goods, and all other factors which will secure for him the highest price, so that, in course of time, he can take up the management of the business himself. Till then the staff must be manned by persons who know the incidents of the trade. It is the absence of credit facility to the ryot that leaves him at the mercy of the merchant to whom alone he now looks forward for prior advances and cash prices.

I do not think that except the big merchants of the metropolis, the generality of the merchants use negotiable instruments to any great extent in their trade. In the large majority of cases, remittances of money by postal money order or insurance are common between two places though negotiable instruments or payment orders may be advantageously used, considering the transmission of cash to and fro. I do not believe that any amendment of the Negotiable Instruments Act will facilitate the use of such instruments by these merchants. The chief causes are the ignorance of the merchants to the advantages of the use of negotiable instruments and the absence of banks to facilitate their use. The merchant can be expected to know of the advantages of negotiable instruments either by sound commercial education or by their extensive use in the trade. The middle-class merchant is a merchant hereditarily. Like the agriculturist in his sphere, the merchant gets trained in the old groove and has few opportunities of studying new methods of enlarging his business. No doubt, he is intelligent and astute in his business but he has not learnt the use of the negotiable instruments by education or experience. Nor is there such a close-knit banking agency to facilitate the use of negotiable instruments. Most of the banks are only money-lending agencies, doing very little work in bill discounting or other spheres of banking. Few banks have opened accounts with sister institutions of wide repute. They are thus unable to be of any use to the merchant except to lend him money. There is no agency worth the name for internal remittance except the post office or a bank to its branches.

Thus negotiable instruments play an insignificant part in the internal trade except of course in educated and big centres of trade. Hundis are prevalent only among Nagarathars which cannot be said to come with "Trade."

In the smaller trade centres, instruments of ownership of goods are practically unknown. Moneys are rarely advanced on such instruments even by educated merchants or banks. They are not treated as valuable property; the probable reason is the lack of confidence in the consignor or warehouse man giving a true description or value of the goods and also in the consignee or owner of the instruments. The legal incidents of such instruments are not well known to the trading public and the system of dealing in such instruments is not prevalent.

3. (a) Value of land is uncertain and is determined by the locality, fertility, irrigation facility, availability of labour and competition. In dry areas cultivated by baling well water, a few years of successive drought will bring down the value to less than one-fourth of the normal.

Purely dry lands with Government assessment of Re. 0-10-0 to Rs. 1-4-0 vary from Rs. 50 to Rs. 300 per acre. Dry lands with wells for raising garden crops vary from Rs. 500 to Rs. 1,000 per acre. But the value depends very much on the condition of the wells and the copious supply of water. Wet lands, channel-fed, vary from Rs. 1,000 to Rs. 5,000 per acre (the latter value in a very few places) depending on the source of the supply of water, drainage facility, nearness to the market, etc.

(b) When the lands are sold for Government revenue, they do not fetch even a fourth part of their value for reasons which are not detailed here. In court sales, the price is also considerably less mainly because of the lack of certainty of title and difficulty in getting possession, etc. In private negotiation market value is given.

4. There appears to be no legal impediment to mortgage of land and agricultural holdings except in a few ryotwari lands where the rights of the *pattadar* and cultivator* are not well defined. There is one land mortgage bank in Kulittalai raising capital, *inter alia*, by debentures. I am told that the said bank is only competing with ordinary co-operative banks in the matter of the amount of money lent and that while co-operative banks finance the poorer classes, neither they nor the land mortgage banks supply the need for the landed middle class and give relief to their indebtedness.

**Written evidence of M.R.Ry. R. SIVARAMA AYYAR Avargal,
Ravanasamudram, Tinnevely District.**

I.—Agricultural credit and credit facilities for small industries.

General.—Agriculture is a very complicated subject and, as a business concern, factors that contribute to its success differ from place to place from time to time and from crop to crop. It is the main business of the people of India. The produces are shared by three parties—the cultivating tenant, the landholder and the Government. An examination of the distribution among these three parties will show that the share of the tenant is becoming less and less and the shares of the other two are increasing though at different rates. Though the income of the landholder had increased to some extent, it does not bear comparison with the rate of income earned in other walks of life. And the Government feel that they cannot give up their share to make the condition of the other two better.

Agriculture is a business which can be characterized as safe. Naturally, the rate of income expected in it can only be low. One who invests his moneys in buying lands has to be content with a low rate of interest as his brother who invests his on Government securities. There is one important difference between these two. If a landholder thinks fit to invest his moneys in buying lands which are capable of improvement and improves them, then the rate of his income in the long run will surely be much higher and the value of his lands also will have appreciated much.

1. This question refers both to the cultivating tenants and the landholders. There are indeed cases in which the tenant is a proprietor himself and the landholder is cultivating his own lands. These are only cases of exception. It will do for our purpose to ignore these exceptions and the enquiry cannot thereby be prejudiced in any way. So the tenants and landholders are considered in this memorandum as two distinct classes.

Before going into points raised by the question, it is necessary to say a few words about the system of irrigation, the condition of rainfall and the variety of crops raised.

I. Irrigation.—There are river-fed and rain-fed sources—

River-fed sources are of three classes—

Class I, where the area of the second crop cultivation is 85 per cent of the first crop area.

Class II, where it is between 50 and 85 per cent of the other.

Class III, where it is less than 50 per cent of the other.

The best of the rain-fed can only give one crop in full.

II. Rainfall.—In a period of thirty years the rainfall is normal in nineteen, it is excessive in five, it is dry in four and it is of severe drought in two years.

(N.B.)—This holds good for the taluk of Ambasamudram.

(a) Rain is excessive when it is more than the normal by 50 per cent and over.

(b) It is dry when it is less by 25 per cent.

(c) It is of severe drought when less by 40 per cent and more.

III. Crops.—(a) *Cereals.*—Staple crop is paddy and others are cholam, ragi, etc.

(b) *Fibres.*—Cotton is the staple crop. Sunnhemp, aloes and palmyra fronds also produce fibres.

(c) *Oil-seeds.*—Gingelly is the main crop with castor and groundnut, as secondary.

(d) *Sugar.*—Palmyra jaggery is the important produce and cane jaggery is also produced.

(e) *Grass.*—Kora,

(f) *Garden crops*.—Chillies and onions are the main crops with plantains, vegetables and roots as minor crops.

(g) *Fruit crops*.—Limes, cocoanuts, etc.

Of these several crops (i) paddy, (ii) ragi, (iii) cholam, (iv) cambodia cotton, (v) sunnhemp, (vi) groundnuts, (vii) sugarcane, (viii) all garden crops and (ix) lime trees are irrigated crops and all the other crops are rain-fed, though some of them are found in irrigated areas.

In all sources of irrigation in *pisanam* or the first crop running from October to February, the crop raised in the ayacut area is paddy but in *kar* or the second crop, paddy is raised only in first-class sources and in other classes it is raised in a large area of the ayacut interspersed with the other irrigated crops. But in some places, annuals like sugarcane and dufassals like plantain are grown in small plots. Subject to this exception the rule holds good.

Let us take the staple crop of paddy and consider the financial help that may be required by the tenant for cultivation expenses. It is all the same for him whether his lands are in classes 1, 2 or 3. In cultivating his lands he has to contribute labour and spend money. The items on which he has to spend money

(1) farmyard manure including the excretions of sheep had by penning and green manure;

(2) cattle and implements.

Weeding is done generally by interchange of labour. Farmyard manure is supplied partly by his cattle. Harvesting charges are paid in kind at the threshing floor. Seeds are generally preserved for the next crop. The items of cash payment noted above require for one acre Rs. 20 a year as noted below.

Cattle and implements will cost Rs. 8 and the cost of manure Rs. 12.

It comes to Rs. 10 an acre for a crop. This is the rate for the wet area. A tenant equipped fully for cultivating one acre of wet land in *pisanam* will be able to raise crops on two acres of dry land with his cattle and implements. The dry lands in the deltaic tracts are not generally manured as cattle are grazing on them for about eight months in the year when there will be no crops on them. Taking a typical village to contain about 600 acres of land wet, and 1,200 acres of dry land, the cash payments made by tenants for cultivation expenses will amount to Rs. 6,000 every half-year. Several of them may not require outside help at all. I have personal experience of a village in which over 300 acres of irrigated lands and 500 of dry lands are cultivated by tenants. A sum of about Rs. 1,600 kept as a floating capital to be advanced to the tenants is found enough to meet their demands for cultivation expenses. But this is a village where the demand for labour is very much in excess of the supply, so much so, that it is not possible to lease out lands for a fixed rent in kind. It will, therefore, be approximately accurate to estimate that a sum of Rs. 2,000 will meet such demands in the typical village where every acre is leased out for a fixed rent.

This will be the sum required if the crop raised is paddy and it will be paddy in all first class sources. In other sources crops other than paddy may be raised in the second crop. If garden crops are raised they begin to yield much sooner than paddy and are sold as they are harvested as very many of them are perishable. Sugarcane and plantains begin to yield only after a year. They may require some further help. But the habit of inter-cultivation gives the tenant some income in the beginning. Moreover, the area is so small that no account need be taken of it. Other irrigated crops named above do not require as much money as paddy for cultivation expenses.

There are two special factors to be considered along with this estimate. Seasons are not uniformly good. It does not matter at all where the system of leases for fixed rents prevails. It is only a matter of adjustment of accounts between the landholder and the tenant. Any part of the

rent unpaid in one crop or its money value will be paid in the next crop with 1 per cent per mensem for interest. A landholder shows this concession to his tenants. But the paramount landlord is more hard-hearted. So the fluctuations of the seasons do not affect the financial position of the tenants as the rent is settled with reference to the average income of the lands concerned.

The second question is the mortality of cattle by infectious diseases. A disease like rinderpest is most destructive. Out of 100 in a herd, about 40 died. The disease was found to return once in eleven years except last year. Within eleven years the same herd increased from 60 to 100 again. So the loss is seen to be about 4 per cent a year and it is recouped in a period of ten years. It is now seen that for cultivation expenses incurred in cash, the tenants in a typical village may be borrowing about Rs. 2,000 for a single crop.

The next point refers to permanent or capital improvements. I have to say that it is only as exceptional cases, capital or permanent improvements are made by landholders on a scale worthy of notice. Small improvements are being made by bringing dry areas under wet cultivation and such areas may be found to be 1 per cent of the total wet area. It may be approximately correct to say that 600 acres are brought under irrigation a year in the deltaic tracts of the Tinnevely district. On an average, the reclamation of one acre may cost about Rs. 60 and it will take five years for such a land to give anything like a profit after meeting the cultivation expenses. Adding five years' interest and allowing for low production, it will amount to roughly Rs. 100 an acre. The total for a year amounts to Rs. 60,000. These improvements are found in the deltaic parts of Tinnevely which may be equal in extent to a third of the district. The total sum of Rs. 60,000 is spent in the four taluks of Ambasamudram, Tinnevely, Srivaikuntam and Tiruchendur. The average for each taluk amounts to Rs. 15,000 a year. The other four taluks are dry. A reference to the revenue records will show that the areas under wells are increasing at a fairly good rate. It will be approximately correct to say that a well with two kavalais at work will irrigate 5 acres grown with different kinds of crops except paddy. The average cost of sinking a well, putting up two kavalais, purchasing bulls and reclaiming 5 acres will amount to Rs. 1,000. The average area of increase under wells can be ascertained from the revenue records. The cost of one acre of increase can be taken to be Rs. 200. At this rate, the total required for a year by the four taluks can be easily found. A fourth of the total may be put down for each of the four taluks. Taking at random 500 acres to be the annual increase costing about 1 lakh of rupees each of the four dry taluks may be taken to require about Rs. 25,000 a year.

From the foregoing observations it will be seen that—

(1) the tenants of wet lands in a typical village require about Rs. 2,000 every half-year for cultivation expenses. Ambasamudram is a typical taluk and it contains about 80 ayan villages. The total for the taluk amounts to Rs. 1,60,000 for a half-year;

(2) for capital and permanent improvement in each of the four deltaic talukas, the landholders require about Rs. 15,000 a year;

(3) in each of the four dry taluks, they require about Rs. 25,000 a year for such improvements.

Calculating at the above rate, the whole district may be said to require about—

(1) Rs. 12 lakhs for the cultivation expenses,

(2) Rs. 1,60,000 for capital and permanent improvements.

The tenants do not feel the rate of interest heavy if it is 1 per cent per mensem. In some cases the interest is paid in kind which calculated in money value will be equal to such a high rate as 2.5 per cent per mensem. If they are good and thrifty, their landholders will be found to be willing to lend them at 1 per cent per mensem. The average rate may be taken as 1.5 per cent per mensem. As a rule, when landholders lend, the period for repayment is roughly six months, that is, the time of the next crop. There is generally a stipulation that the harvested crops should not be

removed by the tenants from the threshing floor without payment of the loan with interest and the rent due for the crop. This creates a charge on the harvested crops.

The money required by the tenants is advanced generally by the landholders. No tenant seems to be accommodated by any of the banks or bankers referred to in clause 4 of this question. Now and then, merchants advance moneys to them as against the crops. He stipulates for a discount of 5 to 10 per cent on the market price of paddy with interest at 1 per cent per mensem.

Except when the loan is advanced by the landholders, there is no security offered for the loan. In some cases the loans are realized by methods which are criminal in nature.

A landholder who raises money for capital and permanent improvements, can raise it ordinarily at 9 per cent per annum from the money-lenders of the village. If the market is tight, he can have it from indigenous banks at 1 per cent per mensem. He will discharge the bank's debt as early as he can. It may be taken that the rate of interest for a landholder ranges between 9 and 10 per cent per annum.

Till twenty years back every village was commanding a liquid or floating capital when the ordinary rate of interest was 7.5 per cent per annum for a landholder. But all the moneys of the villages are flowing to the indigenous banks in adjacent towns and the rate of interest has been steadily rising in the village parts. These bankers who earn this excess profit do not all of them fare well as many of them have failed in business putting very many of the village depositors to considerable loss. There is no way of knowing about the solvency of these banks. This flow of capital from the villages cannot be stopped, but the evils arising from it can be avoided. With this object in view, I suggested some years back, at a time when there was no Imperial Bank, to the Bank of Madras at Tuticorin, that an advance of Rs. 25,000 might be made to a board of landholders at as low a rate of interest as possible, on the security of immovable properties worth 50 per cent more than the loans advanced so that the said amount may be used for the accommodation of the landholders and tenants in a group of five or six villages. The then agent wrote to me to have a personal talk with him on that matter. But when I went there, I found him transferred and his successor in office not enthusiastic about it. So it was dropped. Even now this suggestion may be considered. If it is considered good, then the terms under which the board should work under the present Imperial Bank at Tinnevely may be settled and at least one board for each of the eight taluks may be tried as an experimental measure.

It has to be taken that this enquiry is made by Government not simply to know and record the actual condition of the agriculturists and the difficulties they feel in raising moneys at a reasonable rate of interest to carry on their business, but with a genuine desire to take such steps as will enable them to raise money easily and at a reasonable rate of interest. One has to be thankful for this enquiry but he cannot shut his eyes to the position of the Government as a partner in earning its share in the produces of the land and how such a share is settled and realized by it.

The share of Government is called land revenue. It is periodically settled under certain rules and regulations. It is not within my province to question the fairness of these rules. Accepting them to be fair, I shall try to show how very prejudicially they have been worked out in Tinnevely in 1908. The rules *inter alia* require that—

(1) the yield of an acre of normally good land in the first crop should be ascertained;

(2) a percentage deduction should be made for cultivation expenses;

(3) from the balance a further percentage deduction should be made for the vicissitudes of seasons;

(4) after making further deductions the net is ascertained and commuted into money value;

(5) one-half of this money value is the rate of assessment on one acre for the first crop;

(6) if the area is compounded wet then the assessment on the second crop is—

- a half of the first crop assessment if the source is a first class one,
- a third if it is second class,
- a fourth if it is third.

These rules show that the first crop is the crop when the whole ayacut is under cultivation, that is the crop in pisanam running from October to February. So the Settlement Officer should have ascertained the pisanam yield. On the other hand, he ascertained the kar yield and took it as the starting point. Why? The kar yield would always be higher and it is recognized to be about 50 per cent more than the pisanam yield. So, instead of starting with 100 the Settlement Officer started with 150. He found the cultivation expenses to be 40 per cent of the yield and making this deduction, he had 90 instead of 60. Then for the vicissitudes of seasons he made a deduction of a part of 5 per cent and it may be taken at 3 per cent. Is this deduction sufficient? It has been stated above that in a period of thirty years, nineteen are normal and eleven abnormal. All these eleven put together can only yield seven times the yield of a normal year. There is, therefore, a loss of four in thirty, that is equal to 13 per cent. So, instead of 13 per cent from 60, he has deducted 3 per cent from 90. The correct balance should be 52, whereas, the Settlement Officer had it as 87. On the basis of 87, Rs. 30 was declared to be the net income in money. Rs. 15, one-half of it, was settled as the rate of assessment for one acre for the first crop and Rs. 7-8-0 for the second crop. The total annual assessment on an acre of compounded wet under a first-class source of irrigation was settled at Rs. 22-8-0. If the last figure was 87, Rs. 22-8-0 might be all right. But it is only 52 as shown above. The rate of assessment on the basis of 52 can only be Rs. 13-8-0 a year. There has thus been an unjustifiable excess of Rs. 9 per acre in the settlement rate of Rs. 22-8-0. It comes to 40 per cent. It is not strange to have arrived at this excess in an enquiry which was more or less *ex parte*. The land revenue of the Ambasamudram taluk as a whole is between five and six lakhs of rupees and the Government has been collecting for the last twenty years without any justification at the rate of at least two lakhs of rupees a year. The total comes to Rs. 40 lakhs which may be said to be an unauthorized gain made by Government. The Government is therefore bound to render as much of financial help as possible to the landholders of the Ambasamudram taluk from whom it has earned such a large sum of money in excess of its rights. As the people have not yet acquired a right to shape the land revenue policy of the Government, we are not able to do more than point out that the share had by Government has been so high as to make the condition of the tenants and landholders grow from bad to worse. The Viceroy is said to be sympathetic towards the agriculturists; but what value can be attached to the expressions of sympathy of a son when the father as the Secretary of State for India had instructed the Government of India not to commit itself to any particular line of conduct in land revenue matters.

A landholder in the Tinnevely district calculates $3\frac{1}{4}$ to 5 per cent interest on the value of irrigated lands. If capital or permanent improvements are made and loan is taken for them, two points arise for consideration—

(1) The income is not enough to cover even the cultivation expenses for about five years in the beginning.

(2) The full or standard income can be had only after twenty years.

So the income will be increasing from year to year and the value of the land will be appreciating according to the rise in income. If the money required for the improvements can be had for interest at 6 per cent per annum, it can be repaid with interest in a period of 20 years from out of the income from the lands improved. For the first five years no interest should be claimed. From the fifth to the tenth year interest accruing due for ten years can be paid. In the remaining ten years one-tenth of the principal and interest for the year can be regularly paid. If a system of advancing loans with a stipulation for repayment of the loan as noted above can be adopted, the improvements that can be effected in

the district of Tinnevely will be found to be immense. It is a district most suitable in the Presidency for extending irrigated areas under wells. The annual rainfall though light is distributed in all the four agricultural seasons more uniformly than in any other district. The enterprising spirit of the agriculturist there has attracted the attention of the district officers and they have recognized it in no uncertain terms. As an experimental measure, one lakh of rupees may be set apart for encouraging an extension of irrigation under wells and lent to the people who agree to do so, at 6 per cent interest with terms and conditions as noted above. I am fully confident that the Government will, of their own accord, think it fit to increase the allotment in future and adopt this as a permanent policy.

I may be permitted to say that I have personal experience for over twenty years in making extensions under wells and irrigational sources.

As this point is closely connected with the subject matter of question I, I have touched upon it without going into all the details.

2. Tinnevely is considered to be a self-sufficing district in general. But some of the produces are exported to foreign countries and they are—

(1) Yarn, (2) Palmyra jaggery, (3) Palmyra fibre, (4) Gingelly oil cakes, (5) Chillies and (6) Onions.

There are some produces which are sent to adjacent districts or States and they are—

(1) Rough woven cloths and carpets, (2) Bags, etc., made of sunnhemp, (3) Kora mats and (4) Limes.

Though there are spinning mills and sugar refineries in the district, cotton and jaggery are not sold by the producers to the mills direct. There are middlemen. So many tricks are adopted by them in their dealings with the producers that none of them gets the market price for the produces sold. These middlemen are not professional merchants. Sometimes they make advances in anticipation of future sales. The price of jaggery realized is so low that it reduces the legitimate income of the proprietors of palmyras by about a third and the wages of the climbers by a fourth of the legitimate rate. It is not so bad in cotton.

Palmyra fibres are made out of the fronds sticking to the stems of tender trees. The fibres are beaten and combed out. Then they are sold to the brokers of an exporting company at Tuticorin. The proprietors seem to be duped by their ignorance and their loss may be put down at half the market price. As for the labourers who work at them, they get their wages.

Oil cakes.—There are no oil mills driven by power. Country mills are working and the owners of the mills stipulate with the merchants exporting them to Ceylon and other places to sell the cakes to them at a settled rate for a fixed period. The effect is the enhancement of the local prices of the cakes. This system does not affect either the price of seeds or of oil.

Chillies and onions are sold to middlemen who deliver them to the exporters doing business in them. As these produces have a local market, there is not much scope for loss.

Finished products also have a local market and there cannot therefore be any noticeable loss.

It is found that there is a small volume of trade in other produces with foreign countries or adjacent districts. For the quantity exported, one may find almost an equal quantity imported.

For almost all sales, cash is paid to the producer at the time of sale and the merchants or brokers are financed by indigenous banks. Among the latter big banks have dealings with the Imperial Bank. For internal remittance ordinary hundis are used.

As regards the produces specifically dealt with above, co-operative institutions for sales may be of very great use.

3. *The price of lands.*—In the Tinnevely district, the lands are generally valued on the net income derived from them. But the rate of income differs from class to class of wet lands.

If it is a good double crop land under a first-class source of irrigation and cultivated always with two crops of paddy in a year and if it can be usually leased out for a fixed rent in kind, then the reasonable price for an acre should work out a net profit of 3½ per cent per annum on the price paid. At the present market rate of Rs. 11 a kota (112 Madras measures) and deducting the land revenue of Rs. 22-8-0 the net income from an acre will be about Rs. 115. The price of such an acre will be about Rs. 3,300. This may be taken as the normal price of an acre of the land described above.

* If it is a double crop land in a second-class source and if two crops of paddy are usually raised on it in a year, 4 per cent will be the basis on which the price will be fixed. And for such a land in a third-class source 5 per cent should be realized. The normal price of an acre in the second class can be taken to be about Rs. 2,750 and in the third, Rs. 2,000.

If the land is cultivated with only one crop of paddy a year in any of these sources without a second crop, the price will be about 50 per cent of the prices noted above.

If it is a good land in which one crop is irrigated by a well and the other from an irrigation source, then the price may be taken at 75 per cent of the prices noted above for lands under the second and third-class sources. In such areas, valuable dry crops are raised as second crop.

There are some ayacuts in which paddy is cultivated only once a year and for the second crop other cereals are raised. In such cases, the lands are valued at 2/3 of the lands cultivated with paddy for both the crops. These lands are found in the second and third-class sources of irrigation. Their prices may range from Rs. 1,350 to Rs. 2,100 an acre.

If both the crops are irrigated by a well, then the price may be taken as 60 per cent of the price noted for a good land in first-class sources, i.e., Rs. 2,200 for an acre. When crops are irrigated by wells, the charge of lifting water has also to be deducted from the gross produce.

Dry lands.—The soil of dry lands is classified for settlement purposes and there are several classes.

The worst of them lie waste and are used only as pastures. They are valued at Rs. 5 to Rs. 10 an acre.

If such lands are cultivated with dry crops once a year regularly, they may be valued at Rs. 20 to Rs. 25 an acre.

The best of the dry lands in our parts are valued at Rs. 70 to Rs. 100 an acre.

The price of other classes of dry lands between the best and the worst may be ranging from Rs. 25 to Rs. 70 an acre.

There are some plots near village sites which, though registered dry, may sell from Rs. 500 to Rs. 1,000 an acre according to the situation.

Dry plots near wet lands may sell from Rs. 200 to Rs. 300 an acre.

The prices realized in revenue or court sales are always lower than the prices had in private sales. There are several reasons for this.

In court sales, the purchaser apprehends difficulties to get into possession. A number of objection petitions may be filed and he has to face them before and after he secures possession. In revenue sales, it is the sympathy with the oppressed that keeps away several persons from bidding at the sales.

4. Long-term credit.—It is an essential factor contributing to the growth of prosperity in an agricultural country like India. But the rate of interest demanded should be about 6 per cent per annum. There is always a demand for moneys for industrial and commercial pursuits in the country and they are able to offer a high rate of interest as the rate of profit is high in them. The men pursuing them can also afford to repay the loans quickly. No agriculturist can ever think of competing with them in the general money market as the rate of his profit is low and as he requires a very long period to repay it fully. So a special agency or institution is required to help the agriculturist with loans at a low rate of interest. The interest may be made payable every year and the principal in a period of twelve to twenty years in instalments according to circumstances. Is it possible to create such an agency and how can the capital required by it be commanded?

The country is vast and about 70 per cent of the population are agriculturists. It is not possible for the Government to find the necessary funds to meet the needs of the agriculturists; nor is it easy to divert the paid-up capital of the banks from industry and commerce. If good security is offered, it may be found easy to divert the deposits from various banks now found in the country. The rate of interest derived by the depositors is ranging now from 5 per cent paid by registered respectable banks to 7½ per cent per annum paid by indigenous banks. The average rate may be about 6 per cent interest per annum. This capital of deposits can surely be diverted from the said banks to the new agency if the security offered is unimpeachably good and the money lent out by it is fully secured.

The new agency may be called "Land banks." They should be registered under the law and can be formed in suitable centres with land as its capital. Any one who has individually and independently a clear and absolute right to a wet land, valued at Rs. 2,000 and subject to no incumbrance of any kind, can by transferring his lands to the banks become a shareholder for Rs. 1,000 which may be taken to be the value of one share. In a taluk like Ambasamudram, it is possible to have about 1,000 landholders to take shares in such a bank. The capital value of it will be ten lakhs of rupees. The lands offered for shares become the bank's lands and they are worth Rs. 20 lakhs and their annual net income may be about Rs. 70,000 at 3½ per cent per annum on the capital value of the land. Permanent deposits to an extent of about Rs. 5 lakhs may be expected to be made at the beginning in such a bank for about 5½ per cent interest. The business of the bank should be to lend moneys to the proprietors of wet lands which are situate in the taluk at 6½ per cent interest per annum. The loan should be secured on the first mortgage of irrigated lands. The amount to be advanced should be half the market value of the lands mortgaged. The period for the repayment of the loan should not exceed twenty years. The time for the payment of interest and a part of the principal agreed to should be strictly enforced. If the business of the bank is carried on for some years like this, it is sure to become the best source of help to the landholders and to their tenants through them. Its assets will always be very well secured. The public will have an unbounded confidence in it. And the deposits may go up to the full limit of the value of the shares of the bank. In the beginning there will be a difficulty in finding funds. This can be overcome if the Government thinks fit to help it by advancing to it Rs. 1 lakh as working capital at 5½ per cent interest per annum. The Government may also authorize the trustees and quasi-trustees to invest their trust moneys in this bank in preference to other banks.

If the Government helps like this and if the business is run on safe lines for about ten years, the banks will be found to be self-supporting and to be capable of meeting the needs of the landholders fully in the taluk of Ambasamudram.

There are some impediments but they can be overcome with reasonable care and prudence.

There are no mortgage or agricultural banks.

I have made a suggestion about the formation of land banks.

The land banks should have a right to sell the lands mortgaged to it six months after default, after due publication and at public auction without going to a court of law for it.

The effect of bad constituents on the good cannot be avoided when they are members of one body. We should not allow bad men to become members.

Except the first help to be rendered by the Government, no further help even by way of guarantee is required from Government.

There is a margin of about 1 per cent of profit. This will be found enough to meet the expenses of the banks.

5. Indebtedness of the agriculturists.—I take up question I (5) with some hesitation. I got the questionnaire here in Madras and no books of reference are available here; nor am I in a position to make an enquiry to verify the facts and figures noted here. But I have attempted to show how

information can be had on this subject. It is now over 20 years since I settled in my village and I base my statements on my observation, experience and knowledge. I feel that my estimates will be found as accurate as possible and may be borne out by the village records and any special enquiry made about the subject.

2. To appreciate the present condition of a village, it is necessary to know whether there has been any change in the habits of the villagers and their aims in life. It may be said that with the establishment of the British Government and by the spread of English education, the habits and aims in life of the people of India began to undergo a transformation. It was not necessary to have any knowledge of English to bring about any change in a man. He sees another with that knowledge, employed in Government service or engaged in other walks of life, leading a life of ease, comfort and independence. The standard of his life has become high and the necessities of his life have therefore increased. During his occasional visits to the village he is a social attraction to the young friends of his early life. They admire and adopt his way of life. It was after a struggle for some years with their elders that the younger generation succeeded and changed their ways of life. Their standard of life has risen now to the level of their official or professional friends. The necessities of their life have increased. Even in enjoying such necessities, they are very often guided by nicety and not by utility and they go in more for costly things. The simplicity and cheapness which were the characteristics of the life of the last generation are found nowhere now. The common saying in the past about the standard of life was "For one kota of paddy required for feeding you another kota will be found enough to meet your other necessities of life". This saying applied both to the rich and poor and the high and low. Even the well-to-do among them were finding this standard quite good. They declined to enjoy more on the ground of national good, for--

"Whatever a great man does, other people do;

"the standard he sets up, by that the people go".

Again, the people were always considering themselves to be trustees of the co-parcenary family of which they are the managers. As such, they considered it their duty not to spend more than was absolutely necessary. Even the rich did not have personal servants. The women attended to all the domestic work and the men to all the outdoor work. Manual labour done for one's own comfort or benefit was never considered derogatory whatever be the social condition of the man concerned. The village was the unit of society for them. For service to the village, there were common servants such as kavalkars. On special occasions these would serve the individual members of families for free feeding on the days of work. The ironsmiths, carpenters and other servants of the village community had their perquisites at the time of harvest and they were serving the villagers for a reduced rate and for free feeding.

The whole of this system has changed everywhere almost completely. The causes are so many. It is not necessary to go into them. The result is

1. No one considers himself as a member of his family or of his village and all assert their individuality.
2. Life is not considered to be a bundle of duties and services. Everyone is intent upon exercising his rights and enjoying his privileges.
3. Manual labour is considered derogatory.
4. Comfort is measured by costliness and
5. Utility has ceased to be the standard of necessity.

The greatest sinners in this respect are the high caste people and they are suffering seriously from these defects. Yet there is now an organized struggle by other people to get into a position which is the most important of the causes which have produced these undesirable results.

This is one side of the picture. The other side will clearly prove and illustrate the power of human intellect and the capacity of man to overcome the miseries of life.

It is the work of the natural law of compensation that a gain made in one point is created by a loss in another. Man should be able to find out which of them is better, "the point gained" or "the point lost". Progress is, in general, the purpose of evolution. The point lost is not to be generally regretted. The negative process of starvation cannot always be the only way to accumulate saving against the future. No one in these days will regret even the total extinction of that process.

The change that is brought about in our ways and habits of life by our contact with the British is indeed for the better as the advantages outweigh the disadvantages resulting from it. With these few remarks, I shall take up the subject matter of question I (5).

3. It requires information on the existing indebtedness of the agriculturist, the purposes for which, the persons from whom and the rate of interest at which they are borrowed and how the debts are discharged.

I confine myself to the agricultural classes of the village parts. Nearly 80 per cent of the population in a village are agriculturists. Even the remaining 20 per cent are always actuated by a desire to purchase lands if they can find funds for it. So the non-agriculturists cannot be separated from the agriculturists in dealing with the question. Among the agriculturists there are three classes.

1. Agricultural labourers,
2. Peasant proprietors, and
3. Landholders.

It is not possible to distinguish one from the other. The agricultural labourers are also labourers in general. Some of the peasant proprietors are also engaged in other works when they have time. A few of the landholders follow other professions. In considering the financial condition of a village it is not easy to separate the main pursuit of agriculture from the secondary.

4. It is again very difficult to ascertain the indebtedness of individuals with any degree of accuracy. An inquiry into individual cases will be found to be as bad as the medieval inquisitions and the information had in any such inquiry will be equally unreliable. So, it is not desirable for any one to undertake such an inquiry. After all, the object of such an inquiry is simply to find out the total indebtedness of a village or of other larger units. There is a historic way of finding it out and it will be more scientific, useful and accurate. It may not furnish us with a correct estimate of the existing indebtedness. What will be the use of such an estimate for finding out a remedy! When a disease has grown acute, no sensible doctor will think fit to handle it without knowing the previous history of the case. The financial history of a village should be first known for a period of years. Then by a comparative study it would be easy to find out whether its financial condition is sinking or rising. No reasonable man can be alarmed at the increasing indebtedness of a village if its assets have increased in greater proportion. Otherwise, this inquiry started by Government to relieve the existing indebtedness will be a ridiculous and meaningless farce. I think that the object of this inquiry is to find out whether there is a rise or fall in the economic condition of the agricultural classes, and for this purpose I shall take a village well known to me and examine its condition as it was 30 years back and as it is now. By comparing one with the other the average rise or fall for a year during the period can be found out.

The reasons for taking the period of 30 years are—

1. It is the active period of a man's life; and
2. It is taken to be the age of a generation.

The condition of the village in 1900 and 1920 should be ascertained first.

5. For this purpose the assets and liabilities of the village as a whole should be known for the first and the last year of the period.

The assets of a village are made up of—

1. Wet lands of different qualities,
2. Other irrigated lands and their qualities.
3. Lands irrigated by wells,
4. Dry lands of different qualities,
5. Topes, palmyra and other trees,
6. Houses and sites,
7. Furniture and vessels,
8. Jewels,
9. Cash,
10. Industries,
11. Commerce,
12. Cattle,
13. Carts and conveyances,
14. Leases,
15. Public and professional service, and
16. Other miscellaneous jobs.

In considering the assets of a village one has to ascertain the assets of the villagers "proper". Their assets may be found situate in the village or out of it. Outsiders may have acquired properties in the village and the inhabitants may have left the village and acquired properties in other places. These two kinds of assets are fully excluded from this discussion and I confine myself to the assets owned by the others who are called villagers "proper" above.

6. I shall take the 16 items noted above and deal with each of them as it was in 1900 and as it is found to be in this year of 1929. I shall compare one with the other and note the result then and there.

Items 1 to 4—

(a) Wet land and other irrigated areas.

In 1900, the villagers owned under first-class sources of irrigation—

Wet lands 454 acres.

Water rate lands 7 acres.

In 1929, they owned—

Wet lands 452 acres.

Water rate lands 59 acres.

(b) Wet lands under second-class sources and other irrigated areas.

In 1900, they owned—

Wet lands nil.

Water rate lands nil.

In 1929, they owned—

Wet lands 100 acres.

Water rate lands 17 acres.

(c) Under third-class sources—

In 1900, they owned—

Wet lands 162 acres.

Water rate lands nil.

In 1929, they own—

Wet lands 135 acres.

Water rate lands 14 acres.

(d) Well irrigation—

In 1900, the area was nil.

In 1929, it is 30 acres.

(e) Dry lands—

In 1900, the area owned was 1,100 acres.

In 1929, it is 1,700 acres.

The net result is first class wet — 2 acres = Rs. 6,000.

First-class wet water rate plus 52 = plus Rs. 1,15,000.

Second-class wet plus 100 = plus Rs. 2,75,000.

Water-rate plus 17 = plus Rs. 20,000 (single crop).

Third-class wet — 27 = Rs. 54,000.

Water-rate plus 14 = plus Rs. 14,000 (single crop).

Well irrigation plus 30 = plus Rs. 63,000.

Dry lands plus 600 = plus Rs. 15,000.

The total of additions minus the total of reductions will be found to be equal to Rs. 4,45,000 in round figures.

Item 5.—Topes, palmyras and trees.

These may be taken to be now as they were in 1900. Topes and trees, now and then destroyed had been sufficiently replaced. The palmyras which were tender in 1900 had now grown up and they can equal the number of palmyras dead or cut down. There are tender palmyras also recently grown. The result under this head is nil.

Item 6.—Houses and sites.

The sites continue to be the same. There is an addition of two acres against which two acres are vacated.

This village became part of a Union Board in or about 1896. The number of houses was then about 800 returning a total house-tax of about Rs. 400. The houses have now increased to about 1,000 and the taxes to Rs. 1,250. There is a small difference in the rate of assessment. It may be taken that the present rate has increased by 20 per cent from the old rate. The value of the materials and the rate of wages have also increased by about 50 per cent in the last thirty years. Allowing for these two percentage increases, the total assessment of Rs. 400 has to be taken as Rs. 750. The rate of assessment for a house valued at Rs. 100 or a part of it is 4 annas with 4 annas for every additional 100 in the valuation of houses. Calculating at this rate, the value of houses which existed in 1900 estimated according to the present rate can be taken as Rs. 3,00,000, and of the houses existing now as Rs. 5 lakhs.

There is thus an addition of 2 lakhs of rupees under this head.

Item 7.—Furniture and vessels.

Except some cots, benches, boxes and shelves, there was no furniture worth the name in 1900. The number of cots, etc., has now very much increased. Almirahs, books, safes, chairs, tables, clocks, watches and every other furniture required for making life comfortable can also be found in the house of well-to-do persons now.

Some vessels are required for ordinary and daily use. Others are required for special use. In 1900 mud vessels were used freely in every house and they were also used to some extent on special occasions. One set of metallic vessels can be collected from here and there for any occasional use; silver vessels were very rare.

This was the condition of life in 1900. But now, even poor persons handle some metallic vessels in their daily life. Middle classes use mud vessels only to a very small extent and the rich have given them up entirely. Instead of one set, four to five sets can be had for special occasions. There are very many silver vessels also.

It will indeed be puzzling to any careful student of economy to value these articles. Yet, I think it will be an under-estimate if I value the furniture and vessels used in 1900 at Rs. 5,000 and in use now at Rs. 25,000.

There is thus an addition of Rs. 20,000 under this head.

Item 8.—Jewels.

Only a rough estimate can be made of this also. The population of the village should have increased in a period of 30 years. It was 3,500 in 1921. It will now have increased to about 3,700 and would have been 3,000 in 1900. Men have more or less given up the habit of using jewels. Women alone wear them now. The woman population of 1900 may be taken at 1,500 and of 1929 at 1,850. Ten per cent of them may be taken to be well-to-do and 90 per cent poor. In estimating the value of jewels worn by them, two facts have to be remembered,

This is the only kind of property that a Hindu woman can own and both Hinduism and Islam enjoin every woman to wear jewels, however low the value may be.

The average for the well-to-do in 1900 might be taken at Rs. 250 a woman and of the poor at Rs. 5. So, the value of jewels in 1900 might be valued at Rs. 45,000. Now, the average for the well-to-do can be taken at Rs. 500 a woman and for the poor at Rs. 10. The value of the jewels now may be taken at Rs. 1,10,000. The increase under this head will be Rs. 65,000. In this calculation, women of the village who are married to husbands in other places and have thus become outsiders, have been left out of account.

Item 9.—Cash.

In 1900 cash available in the village might be taken at Rs. 1,50,000. In 1929 it can be estimated at Rs. 2,50,000. The increase under this head is Rs. 1,00,000.

Item 10.—Industries.

Weaving cloth, mat-making, pottery and making jaggery were thriving in the village. There were about 40 families engaged in them in 1900. It may be taken that about 150 persons were so employed. Taking their average income at Rs. 100 per head for a year their income in 1900 would have been Rs. 15,000. But now, there are only 20 such families and they are engaged in them as they are unfit to do any other work. Their income may be taken at Rs. 50 per head per annum.

The total annual income of 75 persons will now be Rs. 3,750.

Under this head, there is thus a reduction of Rs. 11,250 a year.

Item 11.—Commerce.

In 1900, there were four families trading in Malabar. And they were getting a total profit of Rs. 5,000 a year. Now there are only three families earning about a profit of Rs. 1,500 a year.

There is thus a reduction of income by Rs. 3,500 a year.

Item 12.—Cattle and sheep.

There has been a decrease in cattle. Bulls and he-buffaloes required for agricultural work cannot decrease. When the area of cultivation increases, they should also proportionately increase. The extension of the area is found to be 16 per cent in the village. The increase of such cattle may be about 16 per cent. As the landholders have given up the habit of cultivating their own lands, the cattle now found are not in good condition.

Cows and she-buffaloes have decreased, though the volume of milk consumed has very much increased. Good stock is kept and they are fed much better. The calves are starved. So the supply of milk has increased. The old habit of landholders owning a herd of old and young for securing a supply of farmyard manure has been disappearing from the time they gave up the cultivation of their own lands. So, the local production of calves for future use has also decreased.

As the local supply of farmyard manure is decreasing, the number of sheep and goat is increasing.

With these remarks an estimate can be made as shown below:—

In 1900, the cattle for field work which were generally in good condition could be estimated at 500 and they can be valued according to the present market rate at Rs. 17,500.

In 1929, it will be about 580 and as they are not in good condition, they can be valued only at Rs. 12,000. As the bulls working on the fields in 1900 were good and strong, they were generally used for transport and travel also. Now they are not found fit for the purpose.

In 1900, there were about 10 big bulls. In 1929, there are 50 big bulls for transport and travel.

The increase is 40 big bulls valued at Rs. 4,000.

The number of cows and she-buffaloes is very much reduced.

In 1900 it might have been about 500 and now it is about 150. The reduction is by 350. But it has been observed above that the old variety was not good. The value of reduction may be taken at Rs. 7,000.

Sheep and goats would have been in 1900 about 750. Now there are about 1,200. The increase is 450 and they may be valued at Rs. 3,150.

So, the result is, there is a reduction of Rs. 5,350 under this head.

Item 13—Carts and conveyances.—In 1900, people were generally using the transport carts for travelling also. Now spring handies are maintained and used for travelling. The number of transport carts remains the same. But the travelling handies have increased from 5 to 25. This increase of 20 may be valued at Rs. 2,500. There is thus an addition of Rs. 2,500 under this item.

Item 14—Leaseholds.—The absentee landholders had not been getting their legitimate income from their lands. For some years past, they have been leasing out their lands for a fixed rent in cash for a term of years. Some of the residents of this village are taking out leases of lands in other parts of the country. This system commenced in or about 1899 and it is growing from year to year from a small beginning. The persons who enjoyed such leases in 1900 were making a net profit of about Rs. 3,000 a year. Till a year back these lessees were earning a net profit of Rs. 12,000 a year. For more than a year they have not been making any profit at all. The market price of every agricultural produce has been affected by the exchange policy of Government. If gold currency is adopted in this country, or if the rate of exchange is made to adjust itself to the market value of silver to gold, then this loss of income will not have been brought about. The serious consequence of this policy can be easily gauged when it is remembered that the annual rent paid by these lessees exceeds Rs. 1 lakh every year. If a similar loss is caused by act of God, the people will easily bear it with resignation. But there cannot be any justification for the Government of an agricultural country to adopt any policy which will reduce their income in money value, especially when money is required to purchase several articles of necessity from countries where they are valued in gold. By this policy the value of raw produces has been reduced by about 15 per cent. What is the fun of this elaborate enquiry made with a view to make the condition of the agriculturists better, when their income has been reduced by the Government by about 15 per cent by a stroke of the pen? In this connection, I have to point out that 75 per cent of the raw produces have to be sold by the agriculturists to meet the cost of purchasing articles of necessity other than food. There is no use in pursuing this point as it is not within the scope of this enquiry. Nothing can be said now about the profit or loss that will accrue to the lessees as it has become doubtful by the exchange policy of Government.

Item 15—Public and professional services.—In 1900, the villagers in these services were few and they were earning about Rs. 5,000 a year. Now in 1929 the number of such persons has increased and all put together earn about Rs. 40,000 a year. Under this head there is an increase of Rs. 35,000 a year.

Item 16—Other jobs.—In 1900 the income was almost nil. In 1929 it is about Rs. 8,000 a year.

Item 17—Indebtedness of the village now.—The net liabilities of the whole village may amount to Rs. 2,50,000 both secured and unsecured. For long-term loans at a reasonable rate of interest, mortgages are executed. Other loans are raised on promissory notes. Out of this total about a third may be secured by mortgages of immovable properties. Some petty loans may be secured by pledge of jewels and vessels.

The debts which cannot be discharged from income are eventually discharged by the sale of properties, movable or immovable. A rough estimate of the sales made during the last thirty years may in a way show the indebtedness of the village in 1900 and some debts contracted during the period. If the sales made during the thirty years are examined, it will be found that a sum of Rs. 3,50,000 has been realised by them. As these sales are found made from time to time and as the rate of interest in excess of the rate of income from land is about 6 per cent, the indebtedness of Rs. 1,50,000 taken for 1900 cannot be an over estimate. This seems

to be an easy way of finding out the indebtedness of a village at a particular time. Under the head of indebtedness there has thus been an addition of one lakh of rupees.

7. The present financial condition of the village as compared with the condition in 1900 may be briefly stated as follows:—

I. Permanent or capital increase—

	Rs.
(1) Lands	4,45,000
(2) Houses	2,00,000
(3) Furniture and vessels	20,000
(4) Jewels	65,000
(5) Cash	1,00,000
(6) Carts and conveyances	2,500
Total ...	8,32,500

II. Permanent or capital decrease—

	Rs.
(1) Cattle	5,350
(2) Additional indebtedness	1,00,000
Total ...	1,05,350

So, the net permanent or capital value of increase made by the village is about Rs. 7,27,000 in round figure.

We have next to estimate the annual income.

In estimating the rise or fall of the total annual income of the village besides the item specified above, the income from the additions made to lands and cash during the last thirty years and the interest on the increase of indebtedness should be ascertained.

The capital value of lands has increased by Rs. 4,45,000. As it consists of wet, water-rate, well irrigation and dry lands, the income may be taken at $4\frac{1}{2}$ per cent per annum and for cash at 9 per cent.

The annual income from—

	Rs.
(1) Lands	20,000
(2) Cash	9,000
(3) Service	35,000
(4) Miscellaneous jobs	8,000
Total	72,000

From this total some reductions have to be made—

	Rs.
(1) Industries	11,250
(2) Commerce	3,500
(3) Interest on debt	10,000
Total	24,750

The net annual income of the village has risen by about Rs. 47,000 in a period of thirty years.

In this calculation I have left out the profit made from leases as it has become doubtful by the exchange policy of Government.

8. The purposes for which loans are obtained can be known in a way from the special items of expenses made by the villagers during the said period of thirty years. Such items are, broadly speaking,—

	Rs.
(1) Education	1,50,000
(2) Marriages	1,20,000
(3) Jewels	65,000
(4) Land improvements	60,000
(5) Houses	2,00,000
(6) Furniture and vessels	20,000
(7) Charity and religion	30,000
(8) Litigation	50,000
(9) Funerals	60,000
Total ...	7,55,000

9. The debts are generally due to the landholders who are dealing in money or professional money-lenders living in the village or outside and to indigenous bankers. The rates of interest are generally ranging from 7½ per cent to 12 per cent per annum. The indigenous bankers take a year to be 360 days. Interest is calculated by them on that basis with annual rests. When offered for sale, the lands are generally purchased by the other landholders or tenants of the village who find cash to do so. It is only rarely that lands get into the possession of non-agriculturists. Out of the amounts realised by several sales made in this village during the last thirty years, only one per cent has been realized from a professional man. It cannot therefore be said that lands have passed out from the agriculturists to other persons.

10. The increase in the net assets and annual income cannot be economically satisfactory unless the increase is found to be at a higher rate than the rate at which the population increases. It has been said already that the population has increased by 20 per cent in thirty years. A reference to the statements made above about the assets will show that—

- (1) the area of irrigated lands has increased by about 30 per cent;
- (2) the area of dry lands by 50 per cent;
- (3) other assets show a net increase of about 60 per cent; and
- (4) the annual income has more than doubled.

11. The village I have taken for consideration may not be a normal or an average village. There may be villages showing a rate of progress more favourable than the one taken up. The omission of such villages cannot be a matter of concern for a Committee holding an enquiry with a view to give relief to the financially distressed farmers. There are some villages which have, or appear to have, deteriorated in course of time. This deterioration will be found to be real where the people, without any spirit of enterprise, stick to the village and live upon their patrimony. The people are increasing by about 0·7 per cent a year without a proportionate increase in their properties or in the income derived from them. There are some such villages. An enquiry made about their condition may tell a different tale. Some other villages appear to be deteriorating when they are not really so. The enterprising people, without any spirit of patriotism or a feeling of attachment have left the village altogether and settled in urban centres. If they have any properties in their native villages, they usually sell them. Very many of them have been successful in life and all their savings are invested in acquiring properties in the centres of their adoption. All their accumulations will thus be lost to their original villages and gained by other centres. In such villages, population may show a decrease and their condition will be found to be as deteriorating as that of the villages which are characterized to be really so.

When it is known that even the ordinary comforts of life cannot be generally commanded in the village parts, it will not at all be surprising to find that the people there are so very ready and willing to leave their villages and to settle in towns.

In the village taken for consideration, the people are endowed not only with a spirit of enterprise, but also with a feeling of patriotism. It can also be said that one can lead a tolerably comfortable life there.

6. SMALL INDUSTRIES.

I own a small sugarcane mill and am making gur from the juice. Every year about 15 acres of my land are under canes. I have experience of this industry for about 20 years now. The said mill is worked by an oil engine of $7\frac{1}{2}$ h.p. This industry gives work to the engine for about 60 days in a year. This is only a secondary work for it. The main work is to irrigate from a well an area of about 12 acres and to supplement the supply to an ayacut closely, when necessary. Canes are crushed for others also and gur made for them for a rent amounting to Rs. 3-2-0 per hour for a day of 12 hours, the fuel being supplied by the party. This will only be 60 per cent of the cost incurred in making gur by using mills driven by bullock-power. I have a gas engine of 14 h.p. installed in another well for irrigating about 20 acres. An engine of 9 h.p. will be quite enough. But I went in for a bigger one with an idea of running a suitable cottage industry. With my experience in one of the cottage industries, I shall consider question 1 (b).

2. Some industries are named only to serve as illustrations. Success of such industries depend on—

- (1) A good and easy supply of raw produce.
- (2) A minimum outlay of capital.
- (3) A low rate of wages.
- (4) A ready market for sale.

1. The raw produce should be grown locally, so that the cost of carriage may be avoided as far as possible.

2. Every industry requires special machines which may be worked by men or animals or by engine-power. Even when engines are used, it is necessary to employ men also to attend to several details of the industry concerned. There are some places where it will be found very much better to use engines for a cottage industry.

3. In village parts there are certain seasons in which the rate of wages becomes high. Such seasons should be avoided to get labour for a lower rate.

4. Without a ready market for the articles made, the industry will be strangled to death.

Taking my own locality, there are some crops which can supply raw produces to maintain some cottage industries successfully and these crops are—

- (1) Paddy, (2) gingelly and (3) coconuts.

These are locally produced. The total income of paddy derived by the villagers as melvaram and kudivaram amounts to 11,000 kotas, of which 7,500 are required for local consumption and the remaining 3,500 are exported to other places.

The annual yield of gingelly comes to about 100 kotas and the coconuts number about 35,000 a year.

There are some other produces and materials found in the locality and I shall refer to them later on after dealing with the two specified above.

3. Paddy is hulled for rice. Nearly 7,500 kotas are used for local consumption. They are hulled by women of the poorer classes. They earn a coolie in kind of at least 8 Madras measures (M.M.) of boiled rice for every kota of paddy hulled by them for local consumption and it will be polished rice. The well-to-do people have their paddy hulled like this. They may be 10 per cent of the total population. If there is a rice mill, 750 kotas of paddy can be hulled in it. Add to this, 3,500 kotas of paddy exported from the village every year. The total that will thus be available for a rice mill will be 4,250 kotas of paddy.

As for extracting oil from oil-seeds and copra, it is done by men belonging to a special class at an average rate of Rs. 2 for one run of their country mills. One-fourth of a kota of gingelly or copra of 250 coconuts are worked in one run. The cakes produced are not fully dried. In this case, the question of depriving the poor of the scope of employment does not arise as in rice mills.

It is now seen that there is a good supply of raw produces for running two industries in the locality. But they can only be petty industries. Is it possible for the rice and oil produced in it to compete with the same produced in very big mills where business is carried on as a commercial concern? Under certain circumstances they can surely do so. What are those circumstances?

4. Our object is to examine and suggest a way for improving the condition of the agricultural classes in rural parts. Some of these parts in the Tinnevely district are fit for extending irrigations under wells. It has been already said that rain is more uniformly distributed in all the four agricultural seasons here than in any other district. Wells are here and there found with sufficient springs to be worked by power lifts. If there is a well with an engine installed for irrigation, it may supply us with the power required for cottage industries. If there is any off-season for the engine, it can very profitably be used for running cottage industries.

(1) When the engine is of greater power than is required for irrigation, and

(2) if there is in a year a large number of days of rainfall and if such days are not continuous, there is sure to be an off-season for the engine.

My gas engine of 14 b.h.p. has work for 4 to 5 hours a day on working days. On an average, there are 41 days of rainfall in the district. In our place it will be about 45 days. And the rainfall in these days maintain the crops under the well for about 150 days in a year. During those days the engine has no work for irrigation. And for the remaining 215 days there is no work for about 4 to 5 hours a day. Making allowance for the number of holidays, the total number of hours when the engine has no work relating to irrigation may come to 1,800 hours in a year, and in all those hours the engine can be used for cottage industries.

For all the raw produces available locally, the hours of work required of an engine of 14 b.h.p. like mine may be estimated to be 1,500.

The capital required to start a mill for rice or oil, worked by an engine of the type abovesaid will be about Rs. 12,000. Without this initial cost, the industry can be run by payment of rent which will cover the working expenses also. In the case of gur making, we found the saving to be 40 per cent. What will be the rate of profit in the two industries of milling rice and oil if the rent paid is Rs. 4 per hour?

5. A woman undertakes to return half a kota of unpolished boiled rice if she is paid one rupee as coolie. She is entitled to retain the excess rice, if any, and other bye-products. The yield of rough rice measures from 54 to 60 per cent of the paddy according to its variety. Taking the average to be about 57 per cent, she will be getting about 64 Madras measures of rice per kota and she delivers 56 Madras measures of rice to the merchant. It is thus seen that the woman gets about 8 Madras measures of unpolished rice and the bye-products both of which may be valued at Rs. 2. This with the coolie of rupee one makes the cost of hulling one kota of paddy to be Rs. 3. But she takes the paddy from the house of the owner and delivers rice there. The measurer of paddy is paid his wages by the woman. Or this account a sum of four annas may be deducted from a kota. So, the net cost of hulling one kota of paddy comes to Rs. 2-12-0. For all the 4,250 kotas, it will be about Rs. 11,700.

In the oil industry, it has been said that Rs. 2 should be paid for one run in a country mill including the cost of jaggery required for it. For 100 kotas of gingelly and 35,000 coconuts, 540 runs are required. At the rate of Rs. 2 per run the total cost comes to Rs. 1,080. Here also there are no transport charges. So the net cost may be taken to be Rs. 1,000.

Thus, the total cost for milling, according to the present methods, of local paddy and oil seeds and nuts will amount to about Rs. 12,700. But by milling the same in a mill worked by power for rent at a rate of Rs. 4 per hour, the total cost will be about Rs. 6,000. There will thus be a saving of Rs. 6,700 a year secured for the agriculturists without any outlay of capital for building a mill house and equipping it. Moreover, every

industry has its own season. The establishment charges and interest on the capital are eating up during the slack season a very large portion of the profit earned by mills which are established solely for the purpose of running the industries. These items do not affect the industry when it is only a secondary work for the engine.

There are in the village some lands under groundnuts and castor seeds. But the production is very small and it may give work to the engine only for a few hours.

Sun hemp is grown in small plots. They have not yet been worked out into gunny bags in any power-driven mill as jute.

There are a few acres under Cambodia cotton in this village. But in adjacent villages, it is grown largely. As the produce finds a ready sale in the spinning mills at Papanasam, there seems to be no necessity to open a ginning mill in these parts.

Aloes are not grown as a crop. They are grown to serve as fencing. A very small quantity of fibre is combed out from them and used in making kora mats.

It is only the tender palmyras that yield fibre for making brushes. Once in three or four years the same palmyras are yielding such fibre. So, no locality yields enough to think of an industry in that line.

A good stock of cows and she-buffaloes are owned by shepherds and others. No one has a sufficient number to carry on dairy farming as a business concern.

Korai grass is a wild growth in the swamps near the hills. The industry of mat-making from it is done by some persons. The workmen are generally poor. It is growing mostly in porambokes. It is leased out every year by Government for a very low rent. A speculator takes the lease, pays a low wage to the workman, earns a very large profit and becomes rich in course of time. The workmen earn only a living wage.

Jaggery is produced by tappers. They have work only for six months in the year. For the other six months they borrow and live. The dealers in jaggery make advances against future sales. By this system the poor tappers lose about 40 per cent of the market price.

The last two industries, if run on a co-operative basis, are sure to improve the condition of the poor persons engaged in them.

6. When an enquiry was made to find out whether there was any scope for giving employment to the agricultural classes in their off-seasons, I prepared a memorandum on the subject though there was no occasion to use it. I shall send a typed copy of it in about a week to be taken as enclosure A* to this statement. Therein I point a way to enable farmers to find additional work in their own business and to live a more comfortable life by earning more.

7. I have suggested that small industries can be run at a low cost, if the work is done by an engine installed for irrigational purposes. If the suggestion is considered good, then it may be started in two ways.

(1) A company may be formed of local residents to run the industries,

or

(2) the owner of the engine may offer to run them.

Of these two ways, the second is always inadvisable as the amount required for running them to the fullest possible extent will be too large to be commanded by a single villager. So a company will be the better agency to do the business. When such a company is formed, it may be assisted by Government under the State Aid to Industries Act. As for the amount required I shall deal with it after discussing question 6-A.

I 6-A.—There is a big spinning mill very near this locality. Power looms can also be profitably worked by the engine. The yarns produced in the said mill are used by the local weavers and rough cloths are made which have a local market and are sent to other districts. This may revive the weaving industry and restore it to its original condition.

In the locality under consideration bones are available to prepare bone meal as manure. They can also be crushed by the engine.

It is now seen that four industries can be started with the help of the power supplied by the engines working at wells—

- (1) Milling rice,
- (2) milling oil,
- (3) power loom weaving, and
- (4) preparing bone meal.

Transactions for one year may go up to a total of Rs. 80,000. A fourth of this may be required as a floating capital. Government may have to lend Rs. 20,000 for these industries under the said Act.

9. As the locality is very near the hills, it has necessitated the formation of several small tanks which are usually leased out for fisheries every year. In some of them water has to be drained out to get the fish for sale. This system is objectionable in two ways—

(1) It works prejudicially against the interests of the ayacutdars by the wastage of water ; and

(2) it reduces the natural multiplication of fish in the tanks. A trial may be made in some of the tanks under the supervision of the Department of Fisheries to see if the industry cannot be run on a commercial basis. The tanks, that do not generally dry up, have a total waterspread area of 200 acres. If such an attempt is made and found successful, the rents may increase in course of time and more funds will be made available for the general improvements of the villages concerned.

Enclosure A.

This inquiry is started with a view to find out a suitable occupation as a subsidiary industry for the agriculturists so as to enable them to earn money during slack seasons. It is presumed that—

* (1) The agriculturists find no employment during some periods of the year and

(2) They are willing to work if there is a demand for it.

(a) It is therefore necessary to examine these two statements of fact to start with. We have to consider the nature of the work done by the ryots in general. In dealing with it, we have to take that the family of an agriculturist consists of four members, of whom two are adults and two youngsters. So the unit of labour done by a ryot is the quantum of work done by all the four. The agricultural work is not possible without bulls and they have to be tended. In addition to the supply of dung made by the bulls during nights, pickings of dung are also made from the grazing and other grounds in baskets and are stored in suitable places. Over and above this farm yard manure, green manure has also to be collected from public and private lands. The works enumerated above are done outside the fields and the remaining work is done on them.

(b) It will not be out of place here to examine what is meant by employment and unemployment. An agitation is made about the question for some years now with such vehemence and force that shakes this sphere here, there and everywhere. It is an unquestionable law of nature that none of the living beings can remain without work of some kind, physical, mental or intellectual, and that every being that works requires rest for a healthy growth. Animals have to work for the whole day in seeking their daily food and take rest all the night. But man is endowed with intelligence and, dictated by his prudence, he is able to stock his requirements for the future and thus creates a period of rest. Some men find themselves in a position to enjoy rest always but many are not so favoured. As all of them are endowed with intellect and are capable of making provisions for the future, they cannot be naturally expected to work like brutes all through the day to earn their daily food. A limitation has to be placed on the period of work in his case. What is the standard?

(c) By the law of nature every man has to be employed in some way. It is miserably painful for him to remain quiet. Even a zamindar who inherits an impartible and inalienable estate and can thus afford to be always at rest, has to be working like a watch dog to see that his estate does not deteriorate. He has to work for about four hours a day in checking, supervising and controlling. As for the other hours, he creates a pastime. He is seen to spend them in several ways. But you see him sleeping for at least seven hours a day. It may be said that a man requires absolute rest by way of sleep. Looking at the law of animal life, it may be stated that a man can spend seven hours a day in physical work. A ryot's labour we have to consider as his physical work. So, seven hours' work a day may be taken as the standard for an agriculturist. But the nature of his work requires him to labour for more or less during particular seasons. So the average can be taken to be seven hours a day. His remuneration should be such as to enable him to feed him well for the day and save something for the off days and the future. Again, the ryot may be sick for some days, and allowance should be made for such days also. Every nationality recognizes such off-days. The Christians have a day and a half for a week and the Hindus two and a half days in a fortnight with some hours on the 8th and 13th days. Over and above these off days and hours, there are some days of feasts and festivities. At the rate of six off days a month, the working days in a year come to about 290. Out of this deduct 30 days for fairs, festivals, ill-health, etc., the net working days in a year are about 260. The standard can thus be taken to be 260 days of work in a year with seven hours a day. This is the normal supply of labour.

2. I now propose to consider the demand for labour. It depends on the nature of the soil and the conditions of water-supply. They differ from place to place in this Presidency and there is no uniformity in the agricultural operations pursued, and the quantum of work required to be done differs from place to place.

(1) The big deltaic tracts of the rivers, Cauvery, Krishna, Godavari, etc., form one sea of wet lands fit only for wet cultivation. They are either single or double crop areas. There are no dry lands worth mention within easy reach of the villagers in deltas.

(2) There are some smaller deltas as that of the Tambraparni where the wet areas irrigated by it form a narrow strip running parallel to the course of the river. They are either single or double crop areas. There are also other ayacuts and dry lands on either side of the river lying beyond the deltas but within easy reach of the deltaic ryots.

(a) The lands in this area lying beyond the deltas are undulated and tanks are found there which are fed by rain, or by the tributaries of the main river. The lands under the rain-fed tanks are single crop lands and those under the tanks fed by the tributaries are mainly single crop areas.

(3) The areas where there are no streams and where the lands are uneven contain rain-fed tanks. The lands under them are single crop lands.

(4) In some of the areas covered by (2) (a) and (3) above, good springs are available and in such areas, wells are sunk to supplement the tank supply and to irrigate a good extent of lands, wherein miscellaneous crops are raised.

(5) There are some tracts which are plains of a uniform level with very little scope for the formation of tanks, as are found in the Ceded Districts and in the eastern coast of the Presidency.

(a) If the soil here is black cotton soil then there are no springs found and the crops raised there depend for their growth on rain and rain alone.

(b) If the areas here are sandy, they command good springs and very many patches of soil are found cultivated under wells.

It is shown that the soil and the local conditions differ from place to place in the Presidency and the quantum of work done in agricultural operations varies with localities. But in this district of Tinnevely all these differences exist to such a marked degree as to make Dr. Voecker exclaim 70 years back, that this district is a miniature of the whole Presidency. It contains the deltaic and sandy tracts and the red and black cotton soils. And so, if the inquiry now undertaken is first made in this district fully and earnestly then the labour of the officer is sure to be made so much easier in other districts.

3. In this district there are:—

(1) The delta of the Tambraparni with the ayacuts under the rain-fed and river-fed tanks and areas of dry lands within easy reach of the deltaic ryots. The wells in this area are very few and they do not deserve any notice. This delta runs through the taluks of (1) Ambasamudram, (2) Tinnevely, (3) Srivaikuntam and (4) Trichendur.

(2) Tracts irrigated by important minor rivers flowing into the Tambraparni such as Chittar, Ghatana, Manimuthar, etc., and by their tributaries and also by small streams flowing into it direct, as Pachayar, Korayar, etc. In these tracts there are also several rain-fed tanks and a large area of dry lands. There are some wells in these parts serving as supplemental or direct sources of irrigation. These are found in Tenkasi, Ambasamudram, Nanguneri and Srivaikuntam taluks.

(3) The areas under rain-fed tanks surrounded by or interspersed with dry lands:—These are found in almost all parts of the district. But it has to be observed that there are very many wells with good springs in Sankarankoil and Nanguneri taluks irrigating large areas of dry and wet lands.

(4) Vast areas of dry lands depending on rain alone for the growth of crops raised on them:—The locality is not fit for the formation of tanks and there are no good springs to sink wells. These are found mainly in Koilpatti and Srivaikuntam taluka.

(5) Sandy tracts with good springs are found in Nanguneri and Trichendur taluka.

This is only a rough classification, yet it will be found to serve the enquiry into the question of demand for labour and of increasing such demand where there is a scope for it.

4. (1) As I am living in Ambasamudram taluk, I shall confine my attention to the areas noted in clauses (1) and (2) above. The areas noted in clause (1) are within easy reach of the deltaic villages. Almost all the lands in the delta are double crop wet lands. But only 85 per cent of the whole area is cultivated in kar. Under the tanks fed by the tributaries and rain, only a small area is double crop and this need not be taken into account in this discussion.

(a) The areas irrigated by important minor rivers and their tributaries are also double crop lands. But as the sources are of the first, second and third classes, the average of the kar area can only be 60 per cent of the total ayacut.

(b) The whole area of the ayacut registered as wet whether river-fed or rain-fed is uniformly cultivated in pisanam.

There are certain agricultural habits of the ryots which are based on very long experience and they have to be recognized by us in estimating the demand and supply of labour.

(a) In the delta irrigated by the Tambraparni, a variety of paddy called 'Samba' in kar and a variety known as 'Anaikomban' in pisanam are uniformly grown except in parts near the hills. This habit of the ryots seems to be justified. Kar is the season of the south-west monsoon beginning with June and ending with September. So water is available for four months alone. It is therefore necessary for the ryots to raise that variety which does not have a duration for more than four months. When four months' supply is ensured as it is under the Tambraparni system, samba is best to grow there. There are some varieties of shorter duration than four months such as 'Puluthiperatti,' 'Thuyyamalli,' etc. But as they yield only 70 per cent of the samba and as their price is less by about 10 per cent, no ryot can be expected to grow them when the supply is ensured for four months. For pisanam, the variety of anaikomban is raised. Pisanam runs for five months from October to February. Though the north-east monsoon is said to begin in October and end with December, yet there is rain in January and February. Moreover, one out of the five and a half months of life is spent on the seed bed in September. This variety is considered to be the most delicious table rice and it commands a good price. So there is reason for this habit also. And as a rule samba is raised in kar and anaikomban in pisanam in the deltaic plains. This makes it necessary that the crops should be raised and harvested at one and the same time throughout the area.

(b) It has been said that this habit does not prevail in the parts near the hills. The ups and downs found there and the high wind blowing there make some of the lands unfit for raising 'samba' or 'anaikomban.' High wind damages samba and stagnation of water anaikomban. So different varieties are grown with longer or shorter duration. This necessity gives greater scope for employment as the ryot is not pressed to raise crops at one and the same time.

(c) In the areas irrigated by tanks supplied by tributaries and rain and lying within easy distance from the deltaic villages, the ryots find similar scope for employment after their work in the delta is over. As the tanks have a precarious supply, shorter varieties than anaikomban as Karthigai samba, etc., are raised. These crops are of four months' duration.

(d) There are only the dry lands near the deltaic villages and away from the hills that have to be considered. It is indeed regrettable that the extent of these lands under cultivation is decreasing from year to year. This may be due to the indifference or the incapacity of ryots. If it is indifference, it should be ignored. But, if it is incapacity it is our duty to make them capable. Anyway, the growing decrease should not deter us

from discussing the subject. Some of the areas in these lands are fit for raising samai, gingelly, castor seeds, etc. Preparation of these areas for dry crops and raising or harvesting them cannot at all interfere with the ryots' work in the wet lands.

(e) The lands fed by the important minor rivers and their tributaries and by other streams, are almost all of them found in the taluk of Ambasamudram near the hills. The remarks made about the Tambraparni delta near the hills in (b) above apply to these parts also.

(f) It has been stated that there are very few wells in the parts under consideration and the labour involved is so insignificant that it need not be taken into account. I shall refer to the subject when dealing with the question of providing labour to the unemployed.

(3) It is now seen that in the deltaic plains of the Tambraparni, the agricultural operations generally pursued by the ryots consist of—

- (a) raising of samba on wet lands in kar;
- (b) raising of anaikomban on wet lands in pisanam;
- (c) raising of shorter varieties of paddy in pisanam on non-deltaic wet lands and
- (d) raising of other cereals and oil seeds on dry lands.

With samba and anaikomban, other varieties of paddy are also grown hills and in the areas irrigated by the minor rivers and streams with the undermentioned modifications.

With samba and anikomban, other varieties of paddy are also grown in kar and pisanam.

5. Having noted in short, the nature of the work done from year to year by a ryot in Ambasamudram taluk, I shall proceed to ascertain the volume of work that has to be ordinarily done by him in a year. It has been already said that there are two adults and two youngsters in the family of a tenant. The work done by all of them has to be considered as a whole in estimating the supply of labour. It has also been said that no agricultural operation is possible without bulls. So every ryot may be taken to have a pair of bulls to work with the members of his family.

(a) There are two processes of raising samba or other paddy in kar

(1) by sowing and

(2) by transplantation.

In pisanam the process generally followed for every kind of paddy is transplantation.

(b) The unit of the area that can be efficiently cultivated with one pair of bulls by one tenant with the members of his family is one kota equal to 1.62 acres. The unit of dry land is one sangili equal to 3.64 acres. It may be taken that one tenant cultivates one kota for kar and one for pisanam with one sangili of dry land in a year. On this basis, I shall examine the demand and supply of labour.

6. In kar, samba is raised by sowing or transplantation.

(a) If the process of sowing is adopted, then

(1) The land is ploughed seven times at least not from day to day but off and on. With one pair of bulls only a third of a kota can be ploughed a day. So, 21 days are required for ploughing one kota of land. This necessitates one to work for 21 days.

(2) Sheep are penned on the field for two nights. The ryot has work for two days.

(3) One has to work at the ridges of the field for four days to spade out the overgrowth there and repair them.

(4) Manure has to be carted or taken on head to the fields from the pit. One kota should have 42 cartloads. At the rate of four trips a day, the ryot has to work for ten days and has to be assisted by another for loading the manure and for cheering up the tiny bulls on the rugged track. So, two persons have work for ten days each.

(5) Dressing the fields with manure.—One has work for four days.

(6) One day is required for one man for sowing.

(7) For nine days after sowing, levelling and clod crushing have to be done by one man.

(8) Three weeks after sowing, the field has to be watered. The first watering is important. It requires the ryot's attention for a day.

(9) There is the process of weeding. It has to be done twice. Twenty-five persons are required for both together.

(10) If there is no scarcity, there will only be the harvesting which requires about 35 persons from reaping to removing the produce to the house.

(11) If there is scarcity, the ryot has to attend to watering for about five days as the period of scarcity is a month. There are six years of scarcity in a period of thirty. So the average is one.

(12) In addition to the work noted above, and as a matter of necessity, the youngster of the family has to take out the bulls for grazing except on days when they are at work, which may be taken to be roughly 40 days. The agricultural operations begin in April and end in September. So kar work is done for six months. Deducting the said 40 days the youngster has work for 140 days.

(13) Grass is found to be luxuriant on the ridges for about two months before the harvest. It will make a good supply of fodder and is collected once in three days as one headload. This gives work to one for 20 days.

It is thus seen that the volume of work done in kar, that is, from April to September for raising samba on one kōta of wet land by the process of sowing, is found to be equal to the work done by one in 283 days in full.

(b) If transplantation is adopted in kar, then the work may be summarized as follows:—

(1) Five ploughings require 15 persons.

(2) Working at the ridges 4.

(3) Three levellings require 3.

(4) Removing farmyard manure and dressing 24.

(5) For collecting 42 headloads of green manure and taking them to the fields require 42 persons.

(6) For cutting, spreading and pressing the green manure into the fields 4.

(7) Repairing the seed bed, ploughing, manuring, ridging, levelling, sowing and weeding, all require 8.

(8) For collecting the seedlings, taking them to the fields and transplanting them there 30.

(9) For weeding twice 25.

(10) For harvesting and removing the produce to the house 35.

(11) For watering during scarcity one.

(12) For tending cattle when without work 140.

(13) For cutting grass growing on the ridges for fodder 20.

It is now seen that by adopting transplantation, the volume of work done in kar requires 351 persons. It had been shown that the process of sowing requires 283 persons. So the total is 634. But 85 per cent of the total area alone is cultivated in kar. So the actual number required may be roughly taken to be 553. This gives an average of 277 days for four members. Each member is thus found to have work for 70 days in kar.

(c) In pisanam, the process of transplantation is, as a rule, adopted and annikomban alone is uniformly raised. The work of transplantation in pisanam is less than in kar. Excluding the business of tending bulls and cutting grass for them, the quantum of work done then will be enough for a single labourer for 156 days.

(1) The bulls have to work on dry lands as shown below and they have to be tended for about 100 days.

(2) As the duration of crops is longer, grass can be cut for three months. It will give work for 30 days.

The total for transplantation process in pisanam is 286. So each of the four members will find work for 72 days.

(d) There are other ayacuts under tanks, rain-fed or fed by tributaries, within easy reach of deltaic ryots in the plains. These are single crop wet lands. The area of these ayacuts may be roughly taken to be a fourth of the deltaic area. A ryot finds ample time to raise shorter varieties of paddy there when he finds no work in the delta in pisanam. Here also transplantation is adopted. As the area is taken to be a fourth of the deltaic area, the quantum of work done may roughly be taken at a fourth. It will work out 72 days for the four members. So each will find work for 18 days.

It has also been said that samai or gingelly is raised on dry lands and the unit for one tenant with one pair of bulls is one sangili, equal to 3.64 acres.

(1) I shall first consider the cultivation of gingelly.

The whole area is ploughed seven times and it requires									
45 persons	...	...	...	...	...	...	...	...	45
Sowing	...	...	...	...	...	...	...	...	1
Weeding	...	...	...	...	...	...	...	...	4
Harvesting	...	...	...	...	...	...	...	...	24
Total									74

(2) As for samai, it is said to require about 60 persons.

So the total is 134 and the average is 67 and each of the four members will find work for seventeen days. The aggregate value of work done in pisanam from October onwards, gives employment to each of the four members of the tenant's family for 107 days.

The account given above may be considered to exhaust the work done by a ryot in the deltaic plains of the Tambraparni as a rule from year to year. Each of the four members of a ryot's family finds, as it is, work for 70 days in kar and 107 days in pisanam, that is, for 177 days in a year of 260 working days.

7. Having considered the quantum of work on the deltaic plains, I shall take up the lands near the hills, under the Tambraparni irrigation. All the lands there are not fit for samba in kar and anaikomban in pisanam. Such area may be taken to be a third of the whole. Other varieties are grown on this third. The work done on it can be attended to by a ryot when he has no work on the other two-thirds. So each ryot will find himself able to cultivate one kota and a half of land both in kar and pisanam. Instead of 142 days of work on the nanja as his brother ryot finds in the plains, a ryot of the hillside will find work for 213 days in the cultivation of nanja lands. As in the deltaic plains there are other ayacuts close by and dry lands near the delta on the hill side. As there, here also the ryot will find work for 35 days in a year. Adding up all the days of work in a year, it can be said that a ryot living near the hills has work for 248 days in a year of 260 working days.

8. The lands fed by the important minor rivers and streams in Ambasamudram taluk have next to be considered. Almost all this area is found near the hills except the tail-end lands close to the deltaic plains which have been considered along with the said plains. The area of kar cultivation is taken to be 60 per cent of the whole. So in kar a ryot will find work for 72 days. He will have work for 108 days in pisanam as on the hill side of the delta. He has thus to work on nanjas for about 180 days. With his work for 35 days on the rain-fed nanjas and punjas, he will find work for 215 days in a year of 260 working days.

9. On the supposition that

- (1) Every ryot can work for seven hours a day.
- (2) There are 260 days of work in a year.
- (3) He is willing to work so, if and when, work is available.
- (4) There are four members in a ryot's family and a pair of bulls for supplying labour.

(5) The unit of the area that can be efficiently cultivated with such supply is one kota of nanja for kar and one for pisanam and one sangili of punja if a time limit is imposed by local conditions; and

(6) This unit is found increased if there is no such time limit.

In the taluk of Ambasamudram—

(1) A ryot in the deltaic plains is without work for 83 days in a year,

(2) one near the hillside of the delta is so for 12 days only, and

(3) one on the banks of the minor rivers is so for 45 days.

In saying this, the work demanded by well irrigation is not taken into account as the total area under the wells is only 4 per cent of the total ayacut. (See table IX, Volume 2, Tinnevely District Gazetteer.)

10. It is for the purpose of finding out suitable industries other than agriculture to give work to the ryot during these days of unemployment that this enquiry is started. If it is possible to find a scope for increasing the demand for agricultural labour, it should be admitted that it would be the best way to help him instead of driving him to any unknown field of work. The questions to be considered are—

(1) Whether there is any such scope, and

(2) if there is, whether the ryots will be ready and willing to make use of it.

As for the second question, I have only to refer to the remarks of Mr. J. B. Pennington, made more than 30 years ago about the ryots of this district in general.

“There is one feature about all the irrigation schemes in this district. . . and that is the extraordinary enterprise of the people. Only provide water and people will do the rest.”

So there cannot be any reason to doubt the willingness of the ryots to work, if there is a demand created for it. The next question is whether there is any scope for increasing the demands for agricultural labour in the taluk of Ambasamudram. In what way can the demand be increased? The remarks quoted above answer to it in clear terms. “Only provide water and the people will do the rest”. Thirty years back, the lift irrigation from underground springs was not familiar and its possibilities were not fully appreciated either by the people or by the officers. So the remarks refer to schemes which supply water by gravitation alone. Without going into the question of such schemes and their possibilities now, I shall confine my attention to the lift irrigation alone and its possibilities in Ambasamudram taluk.

11. Ordinarily we find that wells are sunk for irrigation and each well has a small area to irrigate either as an independent or as a supplementary source. They get their supplies either from under-currents or from surface springs. Generally the wells in these parts get their supply from surface springs. If a well is situated in an ayacut, it gets the springs not only from the rain water getting into the soil of the adjacent lands but also from the water that is feeding them from the source of irrigation, whereas a well on a dry land gets its supply from rain alone. With this difference in the supply to the wells irrigation from wells has to be considered. Let us first take the wells on the dry lands which depend for their supply on rain alone. To see what the supply is, the nature of the rainfall has to be examined in the locality concerned. Meteorologically there are four seasons in a year—

(1) cold months of January and February,

(2) hot months of March, April and May,

(3) south-west monsoon months from June to September, and

(4) north-east monsoon months of October, November and December.

The rainfall differs generally from season to season and also from place to place in this Presidency. The tabular statement A shows the seasonal differences in the several districts of the Presidency except the West Coast districts and some others and the areas irrigated by wells in

each of them. The statement was prepared in or about 1914 and the figures noted therein are of the year 1911-12. Subsequent changes in the areas under wells and the fluctuations of rainfall can be found in Government publications, but they cannot materially affect the conclusions that could be drawn from the statement. Comparing one district with another, it is found that the rainfall is good in some of the districts for three out of the four seasons, that is, for nine months in a year continuously and in some others only for two of the four seasons, i.e., for seven months in a year continuously. In one of the districts, i.e., Tinnevely, though the annual rainfall is low, yet it is found to be more evenly distributed in all the four seasons.

(a) All the districts favoured with good rains in three out of the four seasons should yield a good supply of surface springs for about ten months in a year. Well irrigation can be extended in the areas if other circumstances are favourable. In Tanjore, Kistna and Godavari the ryots living in the deltaic tracts do not find dry lands within easy reach. Other parts in these districts may be fit for developing well irrigation. Such parts are found in Guntur, Trichinopoly and Tanjore as is seen from statement A. In the districts, where the rainfall is low in two out of the four seasons, well irrigation cannot be easily developed unless the people are driven to it by necessity. Some of these districts near the Bay enjoy good springs. In the district of Tinnevely, the annual rainfall is indeed low on the plains, but it is found to be well and evenly distributed throughout the four seasons. As this is a district extending from the Western Ghats to the Bay of Bengal, the annual rainfall of about 100 inches a year on the British side of the Ghats plays an important part in maintaining the agricultural prosperity of the district.

12. Statement A shows the seasonal rainfall in the district of Tinnevely for 1911-12 and statement B shows the average rainfall there, in a year for every month. It is seen from B that there is not a single month which does not show an average, however low it be. So it may be concluded that it rains every month in all parts of the district, except perhaps in years of scarcity which may be taken to be one in five years as said in paragraph 6 (a) (11) above. What is the period of cessation of rain in years of scarcity? Statement C is a copy of the rainfall register of Kadayan and it shows that the rains do not withhold for more than two months in a year. So it may be taken as a general rule. Statement C shows that the rainfall is excessive, normal and low. It may be presumed that it is so in every taluk in the district. In determining the demand for agricultural labour are we to take the normal or the abnormal rainfall as the starting point? Look to other walks of life and other activities of men and you have an answer. Many people die young. This fact does not deter a single individual from presuming that his life will be long and from entering into different walks of life on the strength of that presumption. Several merchants and bankers fail in business, yet the people are not discouraged, and commerce and banking develop from day to day. Instances like these prove that we are not only justified in relying upon the law of averages, but that we are also found to act upon them undeterred by exceptions to the rule.

(a) There are several evils incidental to life. Are we like fatalists to succumb to circumstances? No. Take the two evils noted above, i.e., early death and failure of business. Human intelligence is always at work to find out a way to mitigate the effects of these evils. Science, medicine, insurance, etc., are indeed mitigating such effects. Why? The present inquiry itself is such an attempt and the intelligence of the country is called upon to suggest ways and means.

13. Taking the average rainfall in the taluk of Ambasamudram as the standard, I shall consider the scope for extending the well irrigation there. It has been said that there are a very few wells in this taluk for irrigational purposes. Though they play a very insignificant part in demanding agricultural labour, yet they serve the very useful purpose of finding out the approximate capacity of wells for maintaining irrigation. An inspection of these and other wells sunk for drinking purposes, will clearly show that irrigation under wells can be developed in this taluk to a fairly good extent. I have personal experience of well irrigation and it may be said that a well with a dimension of 20 feet by 15 feet and with a depth of about 20 feet can give an

adequated supply for two kavalais to work. It is said that with two kavalais at work an area of about five acres can be cultivated. This may be taken to be the normal rate for the taluk.

14. It has to be observed that on the basis of rainfall, years are considered to be of four classes—

- (1) Years with excessive rainfall,
- (2) Years with normal rainfall,
- (3) Dry years, and
- (4) Years of severe drought.

When the rainfall is 50 per cent over the average, it is called excessive. When it is less than the normal by 25 per cent it is a dry year and if it is less by 40 per cent, it is a year of severe drought.

(a) Analysing the description of lands made above, all the lands in the Ambasamudram taluk can be classified as follows:—

- (1) Double crop wet lands under first-class sources of irrigation;
- (2) Do. under second-class sources;
- (3) Do. under third-class sources;
- (4) Single crop lands under river-fed and rain-fed sources; and
- (5) Dry lands enjoying rainfall alone.

(b) (1) In double crop areas under a first-class source 85 per cent of the ayacut area is generally under double crop and the remaining 15 per cent has to be left uncultivated in kar for raising seedlings for pisanam. As there is no failure of crops even during years of severe droughts, the source of irrigation is taken to be the first-class source.

(2) In double crop areas under a second-class source 50 to 85 per cent of the ayacut is under two crops. Including the 15 per cent required for the seed-bed area, it may be taken that 30 per cent of the ayacut is left uncultivated in kar.

(3) In such areas under third-class, less than 50 per cent of the ayacut is under two crops. Fifty per cent may be taken to be uncultivated in kar.

It has to be observed that in the last two areas the limited extent of kar cultivation gets on well even during years of severe scarcity.

(4) In single crop areas under river-fed sources, there may be a small extent cultivated as faslijasti. In similar areas under rain-fed tanks there is now and then a struggle made to raise a second crop in the hot months if the tanks are filled by summer showers. Both the areas under second crop are very small.

(5) In the dry areas there are very few wells irrigating patches of soil here and there.

(c) It is seen from this classification that the extent of cultivation is determined by years of scarcity and not by the average rainfall. When all other human activities are determined by the law of averages, it is indeed strange and inexplicable why the agricultural activities alone should be determined by exceptionally unfavourable conditions. This aspect of the question is not relevant to the enquiry and should be dealt with separately.

15. The enquiry is concerned with existing conditions and they should be taken as the basis for consideration. We have to ascertain first the area of the registered ayacuts, that remains uncultivated in kar. Of the three classes of the sources of irrigation, the ayacut under the first class is fully cultivated in kar. The ayacuts under the second and third classes have 30 per cent and 50 per cent of the area uncultivated in kar. Deducting 15 per cent from both for the seed-bed area, the average of the area left uncultivated in kar comes to about 25 per cent of the total ayacut registered as double crop wet under second and third class sources. It may be similarly said that 85 per cent of the area registered as single crop wet is left uncultivated in kar. What is the extent so left waste?

(d) A reference to table XI of the second volume of the Tinnevely District Gazetteer will show that the ayan area registered as single crop wet is about 3,000 acres and the double crop area is about 29,000 acres in Ambasamudram taluk. This area of 29,000 acres includes the ayacut of the second and third class sources which may be roughly taken to be about 3,500 acres. Eighty-five per cent of the single crop area of 3,000 acres remains waste in kar equal to about 2,500 acres. Twenty-five per cent of the total area under second and third class sources is also left

waste in kar, equal to about 1,000 acres. So the total extent of the ayacut remaining uncultivated in kar is about 3,500 acres. This area has to be left waste for want of water. My suggestion is that this area can surely be brought under cultivation if wells are sunk at the rate of one for five acres in suitable places in the ayacut area. When it is found possible to sink so many as 700 wells a good demand for agricultural labour will be created in this taluk. What will be the demand?

16. About 1,450 acres are found irrigated by wells in this taluk. (See table IX of Volume II, Tinnevely District Gazetteer.) In addition to the work enumerated above, with reference to cultivation, water has to be lifted from wells by picottah or kavalai and the lands have to be watered. It will be seen that, as the supply is always available, there is no time limit in raising crops on the areas irrigated by wells. The only point that the ryot cares for, is that the whole area should be cultivated twice a year when annual and dufassal crops are not raised there. Except paddy which is ever greedy for water all other crops can be raised under a well if it is an independent source. The whole of the 1,450 acres are under such wells. The unit of an area under a well is about 5 acres, as the supply available normally in these parts is adequate for two kavalais at work. I have stated that a tenant has two bulls and so 2.50 acres alone can be cultivated by a tenant. This area should be taken as a unit for the four members of a tenant's family. I shall take two typical instances of crops that are raised, i.e., chillies and ragi. Of these two, the labour required by the first is taxing and by the second easy. The average of these two may be taken as the normal.

(a) *Chillies*.—It is on the lands for six months from the time of transplantation. The details of working are—

(1) Seven ploughings for 2.50 acres require 32 men ..	32
(2) Carting, 96 cart-loads of manure require ..	48
(3) Dressing the area with manure ...	4
(4) Preparing for transplantation and transplanting	14
(5) Application of manure to each plant about six weeks after the transplantation ..	20
(6) Spading the interspaces once a fortnight for five months	200
(7) Collecting chillies once a week after the third month	72
Supplying water and watering alone remain to be considered. It is considered lower down. The total for other items of work amounts to ..	390

(b) *Ragi*. It is on the lands for about 90 days.

The work done is as follows —

(1) Seven ploughings	32
(2) Penning sheep	3
(3) Preparing the lands for transplantation and transplanting	64
(4) Spading the interspaces twice	64
(5) Harvesting	24

Total except for watering 187

These are raised in kar. It cannot be expected that a ryot will be able to cultivate these crops alone on the total area of 2.50 acres. He will be growing on some parts of this some other less taxing and easy varieties such as cholam and Cambodia cotton. The cultivation of cholam requires 70 men from the beginning to the end and cotton 180 for a unit of 2.50 acres. The total for all the four crops amounts to 769. The average number of persons required is 192.

(c) The lands under chillies and cotton will be cleared of the standing crops before November and the lands under ragi and cholam before September. So these are fit for raising a second crop. In the first set of lands ragi can be cultivated in January and in the second groundnut. Ragi as second crop requires only about 140 persons and groundnut about 250 from the beginning to the end of the operations. The total is 390 and the average is 195. The average for kar was found to be 192. The total for a year is 387. In this estimate of labour, the labour required for lifting water and distributing it among the fields is not included and it has to be considered.

(d) It is seen from the District Gazetteer, Volume I, that the average number of days of rainfall in the district is 41. As the rainfall in the Ambasamudram taluk is more than the average, it may be taken that there are six continuous rainfalls with an average of five days' duration, that is, for 30 days and 20 on stray days. When the rainfall is continuous for some days the lands have to be watered only from the sixth day of the rainfall and when it is stray, they have to be watered from the fourth day. On this basis it will be found that there is no need to lift water or distribute it among the fields for 140 days in the year. Again crops are not growing on the lands all through the year. As every organism, the organisms in the land which are helping the ryot in his operations seem to require rest for at least three months in a year. This observation is based upon the general practice. For these 90 days of rest no water is required. So it is seen that there are 230 days in a year when there is no necessity either to lift water from a well or it for the fields unless the crops happen to be annuals like sugarcane and dufassals like plantains. As these crops are not seen in these areas in general we take the figure 230 for the purpose in hand. It follows that water has to be lifted and used for 135 days in a year. Two persons have to work at this, one for lifting water and the other for distributing it among the fields. So 270 persons are required for this work. It has been said that for the cultivation of crops under wells 387 persons are required for a year. So the grand total for a year is 657 required for raising on a unit of 2.50 acres two crops in a year, i.e., each member of a ryot's family will find work for 164 days in a year. So each of them will be without work for 96 days in a year of 260 working days.

(e) There are vast areas of dry lands which are fed by rain alone in these localities. A ryot can very well raise gingelly, etc., of them. For the unit of a sangili of 3.64 acres each of the four members of a ryot's family will find work for 17 days.

(f) It will be seen that in these operations, a ryot does not get sufficient fodder for his bulls and the time available for grazing them and collecting grass for them is not great, though he is keen on finding out a small plot for cultivation of paddy and is prepared to go a distance of two miles to get it. He is cultivating some paddy lands for this purpose. It has been said that all the four have to work for 142 days in a year for raising two crops of paddy on the unit of one kota of land. When the days provided for grazing and collecting grass are subtracted, the net days of work will be about 70 for each of the four. If they raise two crops of paddy on one kota, they will be getting about 170 head-loads of straw for their bulls.

It is thus seen that the number of days on which the ryots labouring in well-irrigation do not find work, is only nine in a year of 260 days of work. To the résumé of conclusion noted in paragraph 9 above, the labour supplied in areas solely irrigated by wells has to be added. In these areas each of the four members of the ryot's family is without work only for nine working days in a year.

17. I have dealt with the point with reference to the areas which are solely irrigated by wells. There are areas in the ayacut registered as single crop wet lands under tanks fed by river and rain. Almost the whole of the ayacut area lie fallow in kar. There are also some areas registered as compounded wet and lying fallow in kar in the ayacuts under tanks registered as second and third-class sources. A reference to these areas has been made in considering the question of labour supplied for cultivating the ayacut under the Tambraparni and minor rivers. A suggestion is also found made that the demand for labour can be increased by introducing well-irrigation there. It is now proposed to examine the suggestion.

18. (a) In paragraph 6 (d) above, the areas under tanks fed by rivers or rains within easy reach of the deltaic ryots are taken to be a fourth of the deltaic areas and it is also taken that every ryot is cultivating a fourth of a kota there with paddy in pisanam equal to about 40 cents. If there is a small well just enough for irrigating 40 cents or a big well on the co-operative system, the ryot will be able to raise some of the crops in kar, referred to in paragraph 16 (b). It is shown there that for cultivating 2.50 acres, 192 persons are required for the kar crop. As the

months from May to October during which, the crops are on the land happen to be dry, the work of lifting and distributing water has to be specifically considered. Some of the crops are of three months' duration, some four, and some five. So the average is four months. It may be taken that there are four stray days of rainfall on an average in each of the four months, as June to September is the period of the south-west monsoon when rains do not ordinarily reach the eastern part of the taluk. Out of 120 days, 16 are served by rain. So lifting and distributing water should be done for 104 days. As two persons are required 208 have to attend to it for the unit of 2.50 acres. The grand total is 400 for 2.50 acres. For 40 cents 64 persons are required and each of the four members of the tenant's family will find work for 16 days. At the end of paragraph 6, it will be found that the work available is, as it is now, sufficient for engaging all the four members for 177 days in a year of 260 working days.

(b) There are deltaic tracts near the Ghats. As observed in paragraph 7 above, each of the four members finds work for 248 days in a year in the present condition of work. If wells are sunk in the areas registered as single crop wet lands, the irrigation under wells in kar will give work to each of the four members. As this is a locality enjoying the rains of the south-west monsoon, each can find work for at least 12 days more in kar. They will thus have work for all the 260 working days in a year.

(c) The areas under minor rivers alone remain to be considered on this point. As it has been said in paragraph 8 above, the area of kar cultivation is only 60 per cent of the ayacut, when the kar area in the delta is 85 per cent. So there is 25 per cent under second and third-class sources of irrigation available for extension. The wells in this area will get a supply not only from rains but also from the supply to the adjacent nanjas under crops. If wells are sunk to feed the 25 per cent of lands lying fallow, the ryots will find additional work. In determining the scope for additional work some observations have to be made about the vicissitudes of seasons in this taluk. It has been found that in a period of thirty years there are five years of excessive rainfall, four dry, two of severe drought and nineteen normal. In 24 out of 30, the supply will be enough for this area of 25 per cent. It is left fallow permanently because of the shortage in six out of thirty years. The accuracy of this observation finds support in the tradition of 12 years of famine in a cycle of 60 years. This shows that the mystics of the East can also make accurate observations of the natural phenomena. No one is able to say beforehand whether a particular year will be good or bad. Some years back, an attempt was made to forecast the coming monsoon. Apart from other informations, there was a material one about the outbreak of monsoon in South Africa. This was indicating the probable date of outbreak in this taluk. A regular publication of the rainfall there may help us to some extent. It may be so, but the attempt at forecasting was given up after a short period as it was found to be too costly for the benefit derived. This is indeed economy with a vengeance. If we are not able to forecast the rainfall, we are surely able to overcome the mischievous effects of shortage in six out of thirty years. It will be seen from the rain register of Kadayam that in some years rains fail in kar for two months continuously, i.e., in August and September. However bad the season may be, scarcity is generally felt in September alone. This is the last month of kar when the paddy crops become almost fully germinated. In such a condition, it is enough if crops are watered once in six days. If wells are sunk, the unit of one kota can be so watered from a well of normal size. There will thus be work for two persons for the whole of September. This requires 60 persons for one kota. The area is taken to be 25 per cent and this work is required to be done only in six out of 30 years. Working out the average, it will be found to be about four a year. It is said in paragraph 8 that the four members of a ryot's family find work in kar for 72 days, i.e., for 60 per cent of the area for agricultural operations. So from the extension of 25 per cent each will find work for thirty days more, and with four days for baling one will find work for 31 days more in a year. A reference to the said paragraph will show that in this area, each has work for 215 days without this addition. Each can be made to find work for 246 out of 260 working days in a year.

12. It will be admitted by all that it will be easier and more natural for a ryot to work in his hereditary profession than in any other. He is

tioned down to his manual work and is devoid of any spirit of adventure. So our effort should be to find out such work as would be agreeable to him. On this view I have examined the scope for increasing the demand for agricultural work under well irrigation. In doing so, I have confined my attention to the areas registered as irrigated ayacut at present. It is now seen that by sinking wells in the areas lying fallow in these ayacuts during kar the demand for agricultural work can certainly be increased. It will add to the number of working days as follows:—

(1) A ryot in the deltaic plain is now finding work for 177 days. He can find work for 16 days more. The number of days when he will be without work can be reduced from 83 to 67 in a year.

(2) A deltaic ryot near the Ghats who is now without work for 12 days in a year will find work for all those 12 days.

(3) In the areas under minor rivers, he is now working for 215 days in a year. If wells are sunk he will find work for 31 days more. The days of non-work will be reduced from 45 to 14.

(4) In the areas solely irrigated by wells, a ryot is without work now for 14 days in a year and there is no scope for increasing agricultural work for him.

The conclusions stated above are arrived at without examining the scope for extending the area of cultivation under the irrigation works as they are found to exist now and without examining the scope for increasing the number of wells in suitable centres for irrigational purposes.

**Written evidence of M.R.By. M. K. PATTABHIRAM Avargal, B.A.,
Secretary, the Urban Bank, Limited, Tiruchengodu,
Salem district.**

I.—Agricultural credit and credit facilities for small industries.

1. At present there is no uniformity in the methods of borrowing by the agriculturists. They borrow locally from fellow-villagers who happen to have some surplus money. They borrow from the individual sowers and banks of the neighbouring towns and also from the village co-operative societies. For capital and permanent improvements they sometimes take takavi loans from the Revenue Department. Rates of interest vary from 9½ per cent to 30 per cent and even 36 per cent in some cases. The rate in the takavi loans is at present 6½ per cent. Advances are paid by merchants and their agents to the ryots for groundnut crops. They are paid even at the time of sowing. The chief condition is that the stipulated quantity should be sold to them at Rs. 3-12-0 per bag. Advances for buying she-buffaloes are also paid to the women for ultimately supplying glue to them.

Except the granting of takavi loans the Government does not take any interest in agricultural finance. The procedure adopted by the Revenue Department is very cumbrous and leads to much corruption on the part of the subordinate officials. The Imperial Bank does not at all care for the agriculturists, except by way of accommodating some merchants and dealers who deal in raw products. Of all the banks it is the co-operative societies that have lent largely to the ryots. Even here there is not adequate provision for long-term loans. Exorbitant rates of interest, refusal to accept part payments in the transactions with the individual money-lenders and an attempt on their part to take away the property of the borrower are some of the grave disadvantages the ryots are now labouring under.

There is practically no co-ordination among the various credit agencies including the Government. There is, of course, great scope. It should be definitely settled, if necessary, by legislation, that all short-term loans should be given by individual money-lenders and bankers and long-term loans up to 10 years should be given by co-operative societies for liquidating old debts, improvements of permanent value and purchase of adjoining plots. For big purchases and also for permanent improvements long-term loans for more than 10 years should be given by the Government. The rates of interest should be controlled and regulated by the Government, time and on, with due reference to the prevailing conditions in the money market. In short, all the several agencies of credit should be complementary to one another and they should all tend towards greater production and equitable distribution of wealth in the country.

2. *Marketing.*—All the agricultural products are disposed of by the producers either in the neighbouring shandies or in their own villages to the middlemen brokers who are clever people with no education or any correct knowledge of the market and at the same time acting under the dictates of the capitalist middlemen in the urban areas. Neither the producer nor the middlemen brokers who take great pains for gathering the produce derive full benefit for their labours.

Pools can be formed and worked on co-operative lines.

Hundis emanating from these parts are not discounted locally. They are cashed only in outside places by businessmen.

3. Value of land fit for paddy cultivation ranges from Rs. 1,000 to Rs. 3,000 per acre. Those that are fed by canals and tanks fetch the highest price. Dry lands where food-grains like cumbu and choiam and commercial crops like cotton and groundnut are produced are sold at prices ranging from Rs. 100 to Rs. 300 per acre. One important factor that determines the price of landed property here is the existence of rich and ready moneyed

people in the neighbourhood willing to invest in lands without caring for profit. When lands are sold in Government auction for non-payment of revenue, they will fetch only the revenue amount. When sold in the event of sale by court decree, they fetch generally the decree amount and sometimes a little more. In sales by private negotiation the value is always very high.

4. The land mortgage banks are not quite a success. The rules are so rigid that the directors are even prohibited from reloaning the collections though there be no dues to be paid by the bank for some time to come. The department is unnecessarily nervous and unbusinesslike.

A record of rights should be maintained by the Registration Department and every transaction regarding every item of property should be entered therein. At the time of lending, the land mortgage banks may, by Gazette notification and proper enquiry, decide all disputes regarding ownership, real and nominal. Necessary legislation may be passed with due reservation of powers with the civil courts for appeals.

Written evidence of M.Ry. T. S. VENKATRAMANA AYYAR
Avargal, Coimbatore.

I.—Agricultural credit and credit facilities for small industries.

1. *District condition.*—(a) Ordinarily agriculturists seek such aid from sympathetic neighbours or relations for similar services in return.

Middlemen and petty traders who negotiate for the outright disposal of harvest also sometimes help.

Co-operative societies also help to some small extent.

Local money-lenders also have their own share.

Experience shows that the largest proportion of help is from middlemen traders. The help of co-operative societies works up to about 10 to 20 per cent, that of local money-lenders 25 to 30, while that of middlemen and petty traders sometimes balances and at times overweighs the help of neighbours and relations.

(b) 50 to 60 per cent of the help for capital and permanent improvements often comes from local money-lenders. The help of co-operative societies rarely exceeds 20 per cent, while that of the petty village sower works up from 10 to 20 per cent.

(c) There are no special agencies for such emergencies, besides (a) and (b) already referred to.

Rates of interest.	Security, etc.
(i) 12 to 15 per cent.	Generally none—occasionally pro-notes and crops.
(ii) 10 to 12 „	Mortgages and pro-notes.
(iii) 9 to 12 „	Same as for (a) and (b).

Government helps by loans under the Land Improvement Loans Act and the Agriculturists Loans Act.

The Imperial Bank largely helps commercial and business people through whom alone the agriculturists and the middle class people derive their financial help.

Note.—The Imperial Bank lends only on the pledge of substantial goods, such as cotton, groundnut, oils, grains and merchandise.

Joint stock banks generally lend moneys for all purposes recognized as binding on borrowers and their survivors and also on the pledge of agricultural and commercial products.

Co-operative banks.—The issue of crop loans has been a recent feature of co-operative finance and has a bright outlook. The bulk of the co-operative societies' loans has, so far, gone for liquidation of prior debts and substantial improvements to property.

Indigenous banks and bankers largely play the part of middlemen between the needy agriculturists and artisans and the wealthier financing organizations.

Estimate.—For the district of Coimbatore Rs. 60 lakhs for cultivation, Rs. 1.5 crores for capital and permanent improvements, and Rs. 40 lakhs for failure of monsoon and other special needs are needed. This rough estimate is based upon my past experience of 20 years; Rs. 27 lakhs of outstanding loans of the Coimbatore District Urban Bank, Ltd., as on 30th June 1929, represents roughly the extent to which the co-operative societies have helped the needs of the public. Joint stock banks numbering over 120 in this district might account for about Rs. 2 crores, but these do not go very much to help the agriculturists.

Defects.—The chief of these are lack of education and adequate financial facilities.

Remedies.—(1) Cheap credit, (2) organization of agencies on co-operative lines in every village, (3) each village should be equipped with substantial godowns, giving facilities for storing and grading agricultural produce of the village, (4) each village must have its store for distributing agricultural and household requisites to its members, (5) a school and a reading room, and (6) representation of each family in such organizations.

The aim of the organization should be to see that the earnings of every member get into the co-operative movement and his outgoings should be by means of cheques only.

There is no co-ordination at all, though some endeavours are being made.

2. Marketing is done largely on individual responsibility without combination. Central trade co-operative societies are expected to do much.

Tariff plays a very large part in the matter of foreign and internal trade. Generally, it is only that of the middlemen in self-interest without co-ordination, or without regard to the welfare of the producer or consumer.

Remittance facilities.—Postal in general, and hundis and bills to a very small extent.

Railway receipts and ownership certificates of goods do not play any large part in the business of the agricultural world.

Licensed warehouses, etc., on the American system or otherwise are yet to be tried. The public have to be educated in regard to their advantages.

3. Wet lands for rice cultivation Rs. 600 to Rs. 3,000 per acre, according as they are single or multiple crop lands. Lands admitting of saffron cultivation Rs. 6,000 to Rs. 8,000 per acre.

Plantain cultivation Rs. 1,500 to Rs. 3,000.

Sugarcane Rs. 3,000 to Rs. 4,500.

Dry crop lands Rs. 30 to Rs. 500 per acre.

Garden lands Rs. 1,000 to Rs. 4,000 per acre.

(a) Considerably discounts the real value to the extent of 80 to 90 per cent sometimes.

(b) Discounts to the extent of 20 to 30 per cent.

(c) Fairly reasonable.

4. *Land mortgage banks.*—For a long time to come, these should depend on (1) debentures, (2) funds from central institutions and (3) on deposits.

Government guarantee is necessary both for principal and interest in the issue of debentures.

Title to properties pledged with the banks should be unquestionable.

5. True.

The property statements recorded with each village co-operative society is the immediate basis. These have to be collected and tabulated for getting at an accurate estimate. In regard to the properties of non-members, valuation on land acquisition basis may be worked out as a means for fixing the general indebtedness, which roughly works from 40 to 60 per cent.

Registration statistics may also prove very useful.

Farmers and tenants.—Ownership of lands has largely been changing hands from farmers to middlemen and money-lenders, farmers thereby becoming tenants.

6. All these are obtaining in this district.

Co-ordination for useful to find spare ing through co-operative agencies may largely prove for the worker.

7. *Existing difficulties in the matter of short and long-term loans.*—Lack of facilities for securing long-term moneys, such as trust and other funds. Each district should be enabled to have the use of such funds in the first instance. A competing lower rate of interest should not be forced upon the trustee institutions for being diverted from co-operative financing agencies.

Extra capital.—About Rs. 5 crores for this district and about Rs. 100 crores for the province as a whole.

II.—Indigenous banking.

1. Largely deals only in giving credit accommodation.

2. Agricultural 10 to 20 per cent, trade 50 to 60 per cent, and industry about 5 to 10 per cent.

11. By better organization of co-operative credit in the village and by making central banks more elastic for dealing with local capital, indigenous bankers would gradually get themselves absorbed in the co-operative movement.

III.—Investment habit and attraction of capital.

1. The introduction of small savings banks receiving pice and multiples, street by street and house to house, will considerably educate the public in the matter of improving thrift.

4. Cheque habit is yet to be cultivated by the public. There are a number of villages where this is unknown. With increased facilities for credit and thrift, the cheque habit may be easily developed.

5. Opening of new branches of the Imperial Bank of India has considerably added to the trade activities of the people, middlemen being proportionately the larger beneficiaries than the agriculturists and artisans.

**Written evidence of the Agent, the Nadar Bank, Limited,
Tuticorin.**

I.—Agricultural credit and credit facilities for small industries.

1. Agriculturists generally borrow money from money-lenders and also take advances from merchants against produce. Banks like ourselves advance money to merchants for this purpose on personal security.

The interest generally charged in this district is 12 per cent per annum.

Banks advance money to agriculturists on personal security for six months at the most.

2. There are no other facilities available for internal remittances than the Post Office and the Imperial Bank and the charges made by both, viz., $\frac{1}{2}$ per cent and $\frac{1}{10}$ to $\frac{1}{2}$ per cent are too excessive.

The Imperial Bank which maintains branches according to arrangement with the Government should accept for collection cheques or drafts in places where they have branches free of charge and similarly issue drafts on any of their offices free of charge. This will facilitate internal remittances.

Extensive use may be made of bills by abolishing duty as in the case of cheques and demand drafts.

Provision should also be made for On Demand Pro-notes to be treated as bills and discounted by the Imperial Bank at its head office rates.

The Imperial Bank at present considers other joint stock banks as rivals. This attitude must be changed, and as the Imperial Bank, they must help joint stock banks, so that the present joint stock banks may be of use to the public to a larger extent and more banks may be started and thus the public may have facilities to resort to banks not only for advances but also for investing their savings. The present habit of the people in investing their money in undesirable places and ways and in spending money in courts for recovery of same or hoarding money in gold, silver and jewels may be given up.

**Written evidence of M.R.Ry. A. K. T. K. M. NARAYANAN
NAMBOODIRIPAD Avargal, Landlord, Desamangalam,
Shoranur.**

I.—Agricultural credit and credit facilities for small industries.

1. The chief agencies which finance the poor agriculturists in the rural areas of Malabar are (a) co-operative credit societies, (b) Government and (c) petty money-lenders.

Co-operative societies.—The help rendered by these agencies is extremely inadequate. In many places, the co-operative societies exist only in name and are mismanaged. It must be said to their credit, however, that where they function properly they are doing something towards lessening the hardships of farmers. This assistance is restricted to members and that too only up to Rs. 500 at a time to a member who either mortgages his land or provides personal or other adequate security. The rate of interest charged by the co-operative societies is generally 7½ per cent which is liable to vary slightly.

Suggestions to develop the co-operative movement.—The initiative must be taken by the Government. The staff of the department should be enlarged and the services of men of influence in different parts of the province should be enlisted to popularize and push forward the movement. New societies should be helped to make a good start and to win the confidence of the public in the movement. Government should place annually an adequate amount of money at the disposal of the Registrar for issuing loans to societies in their earlier stages, free of interest for a term of years and carrying a low rate of interest for a further term. Owing to the difficulty of attracting long-term deposits there is hardly any scope for co-operative credit societies to undertake the issue of long-term loans for permanent improvements on lands. What the Government are now doing in this direction (granting of loans for permanent improvements, like renovation of tanks, channels, etc., repayable after 5 years either wholly or in instalments, interest being charged at 6 per cent) does not touch even the fringe of the cultivating population. Here also I would suggest improvements on the following lines.

Land improvement loans—How to enhance their usefulness.—(a) The annual budget allotment under this head should be considerably increased.

(b) Its proper utilization should be ensured by a larger delegation of powers to the District Collectors or even to the Taluk Tahsildars.

(c) Wider publicity should be given to the facilities afforded by Government.

(d) The loans may be made repayable after a longer term of years than is the case now and that in small instalments.

The Imperial Bank plays absolutely no part in rural agricultural finance. The same is the case practically with joint-stock banks, merchants and dealers. Firms trading in fertilisers are just opening depots here and there but they have not penetrated into the interior.

In Malabar, even on a low estimate, no less than 75 per cent of the agricultural population require financial help. At least Rs. 20 lakhs would be required annually to finance them on a modest scale. Due to lack of funds the ordinary farmer is unable to effect any permanent improvements on his lands. The best agencies to finance agriculturists would be, as stated above, (a) properly worked co-operative credit societies, (b) Government long-term loans and (c) land mortgage banks. Of the last I shall speak in its proper place.

2. *Paddy.*—Small dealers purchase paddy locally and market it in profitable centres. Petty farmers sell their produce to these dealers immediately after harvest time. The prices they get are most often less than the market rates, because these farmers would be in great need of money to pay their debts. Well-to-do farmers, on the other hand, keep their paddy in granaries and sell out only when they can make a decent profit. It would be

highly beneficial if petty farmers are advanced money on easy terms so that they might be saved from the necessity of selling out their paddy at a loss. These remarks apply to cultivators of pepper and dealers in tamarind, etc.

3. The system of land tenure in Malabar is vastly different from any other system of tenure prevailing in the Presidency. The jenmi is the sole owner of the land and under him there are the kanam, the verumpattam and other tenants who hold and cultivate lands and pay the rent to him. The system is a highly complicated one and is the subject matter of a Bill now under consideration in the Madras Legislative Council. It is needless to enter into a discussion of the system here but it is important to remember that the price of lands depends largely on the nature of the tenure. The following table gives the price per acre of cultivable wet lands as classified by the Government in their settlement.

Class of land.	Approximate price per acre.
	RS.
Class I	4,000
„ II	3,000
„ III	2,500
„ IV	2,000

It is to be noted that the price of lands depends upon several factors, e.g., the kind of tenure, the kind of land (whether wet, dry or garden), the nature of the soil, the nature and object of the sale, etc. Lands under kanam tenure producing 100 paras of paddy will roughly fetch Rs. 1,000.

4. There is no legal impediment to mortgage of land and agricultural holdings in Malabar.

Land mortgage banks.—There are no land mortgage banks in the district. There may be difficulties in establishing such banks in districts where innumerable tiny holdings are in existence, but the following suggestions are offered with a view to their being considered favourably and a satisfactory solution being discovered. The main considerations to be kept in view in organizing a land bank are—

(1) The security of the bank against loss and security of debtors from oppression.

(2) Issue of loans at a low rate of interest for long terms.

(3) Attraction of long-term deposits.

(4) Periodical inspection of securities.

(5) The utmost care against bad investment.

It would be impossible to open or work such a bank without considerable assistance from the Government, in view of the great difficulty that would be felt in the attraction of capital and long-term deposits. The assistance that would be possible from the Government is as follows:—

(a) A substantial deposit from the Government without interest or at a low rate of interest for a very long term. This would attract shares first by the prospect of earning good dividends, secondly by the sense of security which any large deposit by the Government would create and thirdly, by the close supervision of the management of affairs by the Government.

(b) The purchase of a large number of shares by the Government. In fact, it may even be possible to fund together the budget allotments for agricultural improvement loans for a few years and place it in the bank. This would attract more funds in the form of long-term deposits and make available to agriculturists the consolidated resources of the Government and the investors. As I said, there may be difficulties in starting land banks. In the first place, no such bank exists in India to work upon as a model. Then there is the difficulty of securing long-term deposits at a low rate of interest, the risk of bad investments, the trouble in conducting periodical inspection of securities and the complicated nature of land tenure in Malabar. But the experiment is worth a trial.

5. I am not aware of any perfect method of estimating the existing indebtedness of the agricultural classes. I know of a co-operative credit society (with which I am intimately connected) which had to give up keeping a Members' Debt Register because the members consistently and steadily

went on refusing to disclose their debts despite the advice of high officials of the department. The best method, however, would be an agricultural survey conducted by co-operative societies. For this we have to wait till the time when each village has its own co-operative society and each farmer in the village is literate and is a member of the society. Speeding up of literacy coupled with a wider diffusion of co-operative principles is the immediate and the urgent need of the land.

II.—Indigenous banking.

It is the hundi merchants and money-lenders who finance to a large extent the trade and industries of Malabar. Most of the Indian wholesale merchants doing import, export and other business in towns keep current accounts with one or more of the hundi merchants for purposes of trade. In towns like Calicut and Cochin such customers are charged 12 to 18 per cent interest on overdrafts, whereas the retail merchants throughout all centres are charged 12 to 24 per cent on loans and sometimes even 60 per cent on petty loans. On hundi orders a commission of 2 to 6 annas per cent varying according to the nature of the locality on which the orders are drawn is also levied. Hence it is only by the payment of exorbitant rates of interest, which consume most of their profits, that the merchants in general are able to obtain financial help from the only agency that is capable of meeting their demands to any adequate extent. Of course, the large banking organizations in Calicut and Cochin are exercising a steady influence on the rates of discount and interest, but in smaller towns there is no likelihood of the hundi merchants charging lower rates of interest. It must, however, be said to their credit that it was chiefly by means of the great financial help that they were rendering for a very long time that the development of trade was made possible.

Another class of indigenous bankers also deserves notice. They are the class of persons who lend money on a smaller scale than the hundi merchants. They thrive in the interior and charge rates even higher than what the hundi merchants charge and also impose other hard conditions. It is the petty merchants and poor agriculturists and artisans that resort to them. They lend out money on promissory notes payable on demand. The interest varies from 12 to 18 and 18 to 24 per cent. There is no prejudice as such against indigenous bankers. They generally derive a profit of 12 per cent on their capital. They are often unable to meet all the demands upon them for want of capital.

**Written evidence of M.R.Ry. Rao Sahib K. S. SRINIVASA
 AYYAR Avargal, B.A., B.L., Advocate "Sri Bagh"
 South Main Street, Tanjore.**

1.—Agricultural credit and credit facilities for small industries.

1. The agriculturist very often keeps for expenses during cultivation a portion of the previous year's harvest. The bigger landholder is able to do this easily but the smaller agriculturist fails to do so and obtains loans from his more careful villager. In most villages some persons develop into money-lenders and from them loans are taken at fairly high rates of interest about 18 to 24 per cent. Loan of paddy is also now and then secured and in such cases the rate of interest is almost invariably very high. It may easily be 36 per cent. The old Nattukottai Chetti is practically a vanishing factor in this business.

(b) Capital and permanent improvements are made only very rarely; and such work is ordinarily undertaken only by those who have laid by their savings. No one thinks of borrowing for effecting an improvement of a permanent character in his land. If there be any rare case of a man borrowing for this purpose, the loan is obtained from a co-villager or kinsman not at high rates at all.

(c) Failure of monsoon is a common visitation which drives the agriculturist to go to the professional money-lender, Nattukottai Chetti or other person doing money-lending business. Loans have to be raised on any terms to pay land-tax and also to keep them on till the next year.

In these loan transactions the part played by Government is almost negligible. The Imperial Bank of India does next to nothing. Loans are sometimes obtained from the 'Permanent Funds' or 'Nidhis' so called, on the pledge of jewels or immovable property. In these institutions the rate of interest is on the face of it fairly low but, where the borrower is irregular, the figures work up very high. The borrower is, as a rule, irregular. Professional money-lenders and merchants also advance money at usurious rates of interest of 24 to 36 per cent on the implied security of future produce or deposit of jewels. Co-operative banks are playing an increasing part in this business but they have so far only touched the fringe of the problem. In upland tracts in the Tanjore district where groundnut is grown, advances are made by the companies ultimately purchasing the produce but this is done only after the crop is in a fairly advanced stage and then the price offered is low. This will make the rate of interest work up at 50 to 75 per cent.

The total amount required in the district of Tanjore will be about Rs. 20 lakhs in the year for the first three or four years and then an additional Rs. 5 lakhs in the years to come.

The great short-coming in the present credit system of the district or perhaps the province is want of co-ordination in the different financing agencies—I was going to say, want of co-operation.

It seems to me that one of the agencies now operating or supposed to be operating, namely Government, should stop financing for the reason that Government loans involve inconveniences and abuses which it is needless to repeat here. Direct loaning by Government is practically an utter failure and they may, if so disposed, lend to co-operative banks money at low rate of interest earmarked for loan to members for permanent agricultural improvements or even to help ryots to tide over bad seasons.

The Imperial Bank is hardly ever able to reach the small borrower and the best thing that it can do, is to lend money to other financing institutions such as co-operative banks or nidhis or to merchants.

2. In the district of Tanjore the sale of produce takes place in four ways.

(i) Sale to the landless brethren of the district.

(ii) Sale to the merchants who go into the village and purchase from the landholders—this constitutes the bulk of sales.

(iii) Sale in the shandy or town market: for instance paddy raised near Tanjore i.e., up to a distance of about 20 miles is carried in country carts to the shandy at Pudukottah, Thiruvonam, Gandarvakottah and Orthanad. The cost of conveyance generally works at 5 annas per kalam in the case of Pudukottah and 4 annas in other instances. The sales are for high prices. It is only the more enterprising agriculturist that does this: ordinarily it is the merchant that gets the advantage of the higher price in the shandies or town market. It will be a great advantage to the agriculturist if the produce can be ported and despatched to the markets in which prices range high. It may be possible to employ lorries for conveying the produce.

(iv) Purchases are made by millowners who purchase paddy so far as funds permit in the part of the year in which prices are low and stock the paddy or perhaps corner the paddy. Then they convert the paddy into rice in the proper time and sell at high rates. Millowners export rice to Ceylon and to a smaller extent to Burma. This business is declining partly owing to the fact that the price of rice is going down elsewhere and partly owing to the decline in the fortunes of millowners operating in the district. If they have suitable credit facilities, a good deal can be done by them.

Co-operative effort in the direction of forming pools has been very little so far but it is undeniable that there are immense possibilities. The present Registrar of Co-operative Societies of this province, Mr. Hood, made an important move in this direction by starting what are known as Loan and Sale Societies. He thought that the agriculturist would be greatly benefited if he obtained money on credit for his needs just after harvest such as money for payment of kist without selling his produce in that season when prices are usually low. Loan and sale societies are there to make such advances on the security of produce. It is obvious that if these persons who have thus pooled their produce only decide to effect a sale together the cost of transport may be easily reduced and that the agriculturist will be able to get the best price for his produce. These societies do not, however, advance money on the security of standing crops. Provision will have to be made for this.

Advances are sometimes made by the European firms on the security of a groundnut crop yet to be realized. The terms imposed are usually very inconvenient and stiff. Those companies also stipulate for a right to purchase the produce.

Even these facilities exist only for foreign trade and not for internal trade.

Merchants sometimes advance money against a future crop and, when they do so, they generally make a stipulation as to the prices much to the disadvantage of the ryot.

Internal remittances are made through banks, that is by cheques, and occasionally by means of hundis. So far as the co-operative societies are concerned, Government have permitted them the use of treasuries for transfer of remittances.

Loans are raised on the security of only a few varieties of produce in the Tanjore district: groundnut and cashewnuts and paddy to a smaller extent. Banks make advances and, as stated already, the merchants who intend to purchase advance money on the basis of a settled price.

Hundis and cheques are the only instruments used in the trade of the district.

Hundis are used by the Chettis. They are payable either at sight or on a fixed date.

So far as this part of this province is concerned, very little use is made of any instruments indicating ownership of goods for the purpose of securing credit. In Kumbakonam and Negapatam piecegoods merchants or silk merchants obtain loans on the security of their goods or railway receipts for such goods.

3. The value of land is determined by—

(i) Intrinsic merit, i.e., yielding capacity;

(ii) existence in the proximity of persons who have the funds to purchase;

- (iii) ease in carrying on cultivation work;
- (iv) railway and road communication;
- (v) existence of credit facilities;
- (vi) manner in which payment has to be made by purchaser and above all;
- (vii) an unclouded title.

In Government auctions lands usually go up for low bids. The refractory ryot who will not pay kist is almost invariably a troublesome neighbour and is sure to throw in all sorts of obstacles in the way of the enjoyment of the lands. More usually, there is a combination in the village. In such cases we witness sales for one anna, Government taking up the bid. The value of lands in such cases has nothing to do with the real economic values.

Court sales.—There are two difficulties in court sales—

(i) In about 50 per cent of the cases of court sales objections and claims arise some time or other from interested parties and very often there will be secret troubles and encumbrances. Sales are always at the purchaser's risk. Moreover, there is the general prejudice of a sentimental character in purchases at court auctions. In court sales the entire amount has to be paid at a short notice. Sales are also usually in lump and not in suitable fragments.

Court sales do not represent the real value of lands for the reasons stated above. Even in the best areas we find that lands do not go up beyond Rs. 300 per acre. Of course, there may be rare instances of sales in which intending purchasers bid at competitive rates. Normally the value of lands in river-fed areas range from about Rs. 600 per acre to Rs. 1,500 per acre. Where the lands are away from the railway lines, the price will necessarily go down. In rain-fed areas the question will arise whether there are any good eris or lakes nearby. If any exist and if the area is thickly populated, the value of the land may be from about Rs. 100 to Rs. 400 per acre. Where the aforesaid conditions do not exist, lands are sold at any price from about Rs. 50 to about Rs. 150 per acre to the utmost.

4. Want of separate registration of holdings, absence of record of rights, the pernicious but time-honoured system of *benami* sales, the uncertain laws as to the liabilities of the members of joint families for payment of debts, the law relating to the disability of females, the future rights of reversioners—these make any dealings in land uncertain and speculative.

Again, the difficulty in obtaining decrees on mortgages, defences put forward, want of sanction for false defences, difficulty in execution, the cumbrous law relating to exemption—these scare away any investor.

So far, land mortgage banks have not sprung up in this district. There is no doubt one at Tanjore but that is not really functioning.

The anomalous situation of land mortgage banks being run by the landless gents for the so-called political purposes, the nasty system of catching institutions for election purposes, the absolute lack of fair dealing, not to say plain dealing, which has been created and promoted by the recent reforms—these make financial reforms unattainable.

(a) A system of record of rights, the failure to record which may work forfeiture of rights, is an important step. When banks advance loans on the basis of the records so maintained after due notification, that should be conclusive proof of title.

(b) Banks may be allowed to foreclose in the cases in which mortgage is accompanied by deposit of title deeds and is supported by the record of rights.

The system of awards by arbitration and execution on the basis of such awards may be developed with advantage.

(c) The costs should be nominal in the case of banks.

Capital for mortgage banks.—Long-term deposits by individuals are unusual; debentures are not known to people and if debentures are issued it must be only by the apex bank. Funds for the present must be got from the central bank.

Government guarantee is not necessary: agricultural banks should not raise debentures, only apex banks should: apex bank debentures may be included in the list of trustee securities.

5. An economic survey of a far-reaching character may be necessary and the amount for this may well be provided by reaching the remedy itself.

The Public Welfare League, Tanjore, is making a careful economic survey of a few select villages in river-fed and in rain-fed areas and I shall submit the result as soon as it is obtained. It is not complete yet.

6. In this part of the province agriculturists do very little besides. Rice-milling is an operation performed by merchants. Dairy farming is practically unknown, if the expression refers to dairy farming on anything like a large scale. Agriculturists sometimes maintain plantain gardens, coconut topes and sugarcane plantations. They also raise garden crops. These industries are in fair progress. Spinning is done by a totally different class of people though of course weavers may get to own lands. Hand-spinning has ceased to be of any consequence.

Dairy farming can be stimulated by co-operative effort. Other industries will certainly develop if there should exist an organized system of pooling produce and effecting sales. Moreover, some little initial capital may be required which can be furnished by organizations created for marketing produce. I have already referred to loan and sale societies.

If consistent efforts should be made for promoting these subsidiary industries and other industrial efforts which can be carried on at intervals, that will improve the condition of the farmer. I may refer to a few possibilities:

- (a) Oil making.
- (b) Coir manufacture.
- (c) Mat making.
- (d) Weaving on hand-loom.

The working capital required for these operations can be furnished by small banks, co-operative or other establishments, in the rural areas. The institution must be co-operative in its character, whether it is registered under the Act or not. The development of banking for industrial purposes will have to be under special direction, for it will require a larger personal attention than that which the Co-operative Department can bestow. In these undertakings the element of chance enters to a larger extent than that which co-operative organizations can be saddled with.

It, therefore, seems to me that "industrial banking," so to say, has to be performed by different institutions and under different directions.

6. (a) I have watched with care the operations of the fishermen in some parts of the district of Tanjore. I organized in the district of Tanjore some co-operative societies for the benefit of fishermen at Tanjore and am endeavouring to create a larger society at Muttupet.

Fishing is performed and can be performed only by persons accustomed to do the work—hereditarily engaged in doing the work. Those engaged in fishing operations are known in some parts of the district of Tanjore such as Adirampattanam, Rajamadam, etc., as Semmanottis, as Sembadavans in Tanjore and near Tanjore as Monigars or Valayans. At Muttupet and Negapatam Muhammadans perform this work. There are some fishermen operating in the sea and some in inland waters.

In the matter of metal industries large numbers work in Kumbakonam, Mannargudy (brass), and Nachiarkoil (bronze). In Tanjore there are persons who do decorative work of a higher order. The art work of these last is fast sinking into unimportance owing to want of funds.

Industrial banks will have to be started for reviving these industries.

7. The Imperial Bank after considerable correspondence and trouble has given to the co-operative central banks an overdraft—that is the only connexion with the Imperial Bank.

Co-operative banks do not recognize joint-stock banks at all. The utmost courtesy shown is accepting deposits from joint stock banks.

There is no difficulty in the matter of securing funds for short-term loans. Long-term capital has not yet become available.

The district of Tanjore can well absorb half a crore of rupees.

There is of course competition between nidhis and co-operative banks. Nidhis or permanent funds, so called, seem to lend at 6 or 6½ per cent though the real rate that parties have to pay may work up to double that rate. Borrowers resort to these nidhis and often come to grief. After loan and sale-societies were started in and near Tanjore, the Tanjore Permanent Fund has begun to lend on the security of produce or goods and to offer competitive rates or terms.

The grant of exemption from income-tax will doubtless promote the progress of the co-operative movement.

Inclusion of debentures issued by the apex bank in the list of trust securities will certainly stimulate co-operative progress.

II.—Indigenous banking.

1. The indigenous banks known to the district are (i) Nidhis; (ii) Kuris; (iii) Chit funds; (iv) Chetti or other private banks.

Nidhis, permanent funds, saswata nidhis or mutual associations so called are institutions which are modelled on the building societies of England and have obtained a great measure of popularity. I have given a detailed account of nidhis, kuris and chit funds in an article published in the Madras Bulletin on Co-operation in the year 1913 or 1914.

2. Chetti firms or private banks operate in some parts of the district. They receive deposits and lend to constituents. The Chetti firms cash hundis and cheques and lend on personal security, on the security of landed property or on the security of jewels, etc. As stated elsewhere, they lend to agriculturists for kist purposes. Merchants borrow for purchasing goods, and they maintain current accounts for merchants. They also allow an overdraft to a fixed extent.

5. The chetti firm or other indigenous banks grant loans to approved customers on the security of hundis or on personal security.

Cash credits are allowed, but the persons to whom cash credit is allowed have to pay interest only on actual borrowings. Rates may range up to 12 per cent or 18 per cent.

Indigenous banks or bankers rely upon credits which they have with other persons or firms. They do not have reserve fund to fall back upon.

6. Rates of interest go up to 18 per cent but where interest is paid in the shape of produce the rates may work up to 36 per cent or more.

The indigenous banks or bankers have to rely on the off-chance of receiving deposits, have often to face bad debts, have no system of examining the credit or solvency of borrowers, have to rely on their own resources, have no reserve fund and have no outlet for surplus funds. For these reasons they are not able to lend at fair rates.

If there should be co-operation among different bankers, much of their difficulty will vanish and each banker will be able to offer at lower rates.

The answer to this question is obviously in the affirmative.

7. There is certainly a great prejudice against indigenous bankers. They are under grave disabilities arising from the uncertain state of law, the existence of latent entails, etc.

There is nothing now to require a court to decree the rate of interest appearing in the document or to accept the recital of consideration, etc. These can be settled by legislation.

The operations involve an amount of uncertainty and speculation quite undesirable in money dealings.

A good record of rights, clear definition of the rights of the members of a joint family to bind the estate for their debts, prescribing the rates of interest so as to bind courts and creating legal presumptions in favour of certain instruments are some of the ways.

8. If the indigenous banker is protected as stated above, if there are facilities for obtaining simple money decrees more easily than at present and if execution is made more simple and if officers of the court are going to realise their duties, there may be some hope of promoting indigenous banking.

To-day the sanction of the public opinion, the fear of oath, the sense of decency and honour are all decaying factors. Success anyhow is the watch-word. The recent reforms have had a most dangerous effect on the minds of people. Sense of honour and love of honesty are tending to decline. People are not able to trust each other. People are beginning to feel that, if one goes into the court, any kind of defence will be put forward. If all defences are going to be penalised, if the Hindu Law is codified and if the system of family lawyers is going to be developed, there may be hope.

9. The apparent fortunes of the indigenous banker are illusory quite often. Lending is becoming speculative. I have known cases in which execution has taken 14 years or more.

10. Yes, on all points.

11. Certainly that may be a help.

There will be no real competition.

12. Capital is necessarily getting more and more shy; large sums are often locked up.

Not much.

Creation of local industrial banks will be a great step forward.

III.—Investment habit and attraction of capital.

1. Banking resources:—

(i) Nidhis.

(ii) Co-operative societies.

(iii) Joint stock banks.

(iv) Private money-lenders or Chetti firms.

For this district a crore of rupees will be required.

Savings are promoted by the above institutions, and by savings bank and postal cash certificates.

The public can have better facilities for saving: such as home safes; promotion of chit funds; larger issue of Government notes of smaller denominations; postal cash certificates of Rs. 5 available more easily.

In rural areas there are very few chances of saving.

Purchase of gold and silver ornaments and vessels is a form of saving but it is unnecessarily locking up capital, taking with wastage, coolie to gold and silver smiths, etc. The whole system is telling upon the people. The huge increasing national waste of resources accounts to no small extent for the decline of commerce and industry in the country.

One important way of inducing people to save may be to extend insurance facilities—e.g., by extending the benefits of the postal insurance to people or by encouraging insurance companies and keeping a tight hand over their operations.

2. Postal cash certificates are not known as well as they ought to be. Five rupees certificates should be issued and should be made available in the homes of people.

I would suggest the issue of certificates payable on the one hand at the end of three years and on the other at the close of ten years.

Savings banks are considered hard to deal with and are not popular. Only the richer classes invest in securities. For the savings bank cash may be received and cash certificate issued by postmen themselves and repayments may be ordinarily made on the production of chits.

There seems to be no real conflict.

3. Government securities should be made cashable in treasuries or post offices.

Purchase of Government paper is considered mysterious beyond the ken of the ordinary man.

Money coming into the hands of the people in the village is kept for expenses for marriages, pilgrimages, feasts, festivities and jewel making. Very few are provident enough to spread out the funds through the whole year. Richer agriculturists devote the amount for election purposes. The elections under the reforms are the ruin of the land. Mirasdars' officials are, generally speaking, able to save the price of the produce and save the same by depositing in banks or lending out to individuals.

The tale of the farmer is a tale of woe. Very few save and when they save they waste in jewels. If loans are given to fellow agriculturists it is often in kind at about 36 per cent, sometimes in cash at 18 per cent or so.

There is nothing like a steady growth of capital.

4. The cheque habit is not taking any deep root in the country.

The effect of the abolition of the stamp duty is hardly noticeable yet.

Merchants, bankers and the more highly paid officials use cheques.

The effect of the use of the vernacular script may be inconsiderable and will certainly promote confusion.

5. I state the causes without detailing them and I assume that the banking and investment habit is not developing, even as a postulate.

(i) The joint family system.

(ii) The mysterious love of secrecy.

(iii) Incapacity to say no to others when they ask for accommodation.

(iv) Ignorance.

(v) Want of sufficient facilities for investment so as to bring home facilities to the poorer and more ordinary men.

Government may help in the starting of industrial banks from which suitable help may be given to those who start industries. The officers of such banks may do propaganda work.

The opening of new branches of the Imperial Bank has been of some use but, so long as they make no advance on the security of lands, their operations cannot become very extensive.

For investment on lands various legal reforms may be necessary.

**Written evidence of M.R.Ry. K. KUTTAN UNNI NAYAR Avargal,
Blaya Nayar of Kavalappara, "Kottaram",
Kavalappara (Post), South Malabar.**

Preliminary.

In response to your circular letter, inviting an expression of views on the several points of enquiry embodied in the questionnaire, which you have been so good to forward to the Kavalappara Bank, Ltd., I have ventured to set down hereunder a few thoughts that have struck me as relevant and important. Considering the vastness of the subject and the comprehensive character of the questions framed, I cannot help feeling that the observations of one like me, whose study of the topic and whose practical experience in the line is limited in scope and mainly confined to rural conditions, will be more commonplace ones, not possessing anything of weight. Much less useful will it be, by way of giving hints or suggestions of moment. At the outset I am bound to make it clear that what is expressed herein represents my own personal views and should not be understood as voicing those of the directorate of our bank. Another point I would stress is that in formulating my views I have had the condition of Malabar uppermost in my mind. Malabar is a land having many peculiar features of its own in several respects and this fact cannot but affect its economic problems; and any attempt to solve those problems cannot ignore or underrate their influences. The incidence of joint family ownership of property and its management by a single individual and of inheritance and succession prove strong impediments to the growth of individual efforts and enterprises which play a large part in the development of commerce and its adjunct, banking. An individual as such has no right to family property apart from a claim to bare maintenance. Consequently, his personal credit is much poorer in relation to the status he holds in the society. This accounts for few Malayalis taking to trade or commerce. The bulk of the trade in the district has fallen into the hands of people who have come from abroad and settled down here such as Pattar-Brahmins, Moothans, Chettis, Saits, Mussalmans, Europeans, etc. It is no wonder that banking and other modern institutions designed to help the growth of production and distribution, are little understood or appreciated. The idea of keeping money in constant rotation instead of keeping it locked up, is foreign to the mind of an average Malayali. Investments are mostly on land, and land alone is regarded as a sufficiently safe security for investments. The investor is anxious to choose such transactions as are not likely to be repaid for a long time. As a consequence, capital is shy and becomes scarce for productive lines. The disastrous fate which overtook some of the newly started joint stock companies has only made the suspicion and conservative nature all the more strong. Modern education and the individualistic outlook that follows in its wake have conducted to slowly effect a change for the better, no doubt. Nevertheless, it has to be stated that banking, as well as commerce and industries, is still in a state of infancy and much headway has to be made in the line of progress and advancement. With these few preliminary remarks I proceed to answer the questions seriatim. It is hardly necessary for me to add that I have attempted only such questions on which I have thought myself capable of throwing any small light in my own humble way and that I have not aimed at exhaustive answers, as I am fully sensible of my limitations. Malabar is fortunate in having in the Committee, as a member, one of its ablest sons, Mr. C. Gopala Menon, who has made a special study of the economic problems and who will be able to elucidate the special economic aspect of the above stated problem of inheritance and family management in Malabar.

1.—Agricultural credit and credit facilities for small industries.

1. The usurious money and grain lenders are the dealers who form the sole refuge of the needy agriculturist for his expenses during cultivation. Improvements are, as a rule, undertaken only by kanamdars and jennmis.

In the case of these people they think of improvement plans only when they have the funds required for the purpose; and, when they are in need of more money than they possess to complete their schemes, they resort to other credit agencies. Government aid is resorted to only in stray instances, as in practice it is found to be difficult and troublesome to obtain loans from Government. The same applies to cases contemplated by sub-clause (c) also. Interest levied is mostly in kind and ranges from two to three per ten, regardless of the period for which the loan remains outstanding and in no case does the period go beyond the time of harvest. Such advances are made on the strength of promises made orally or through a bare letter and no security is demanded or given usually in such transactions. Paddy is the principal crop of the district. Only in such cases as pepper cultivation or in similar hill produces or articles of fugitive cultivation such as groundnut, ginger, etc., the standing crop is made a security for which a mere letter is passed between the parties. The part played by credit agencies other than professional money-lenders and dealers in making direct advances to the ryots is insignificant, if not absolutely nothing. One solution that strikes me as most potent to save agriculturists from the clutches of sharp money-lenders is to make the operation of Government loans more easy so as to bring their advantages within the reach of the ryots, many of whom are yet to learn of the existence of such facilities. To attain this end it would be advisable, in my opinion, to entrust it to the Agricultural Department. Similarly, the Co-operative Department, which has done some tangible relief to this class of people, has to be made more helpful to them by expanding its sphere and work.

2. Marketing is solely carried on in the rural parts through dealers who purchase from individual producers and take the stuff to busier centres where merchants and mill-owners are available to buy the same. Organizing pools and co-operative produce societies in important rural centres will be a great correcting factor in securing good prices for the produces of the cultivator. At present he is deprived of the full value of his labour on account of his impecunious condition and the sharp methods practised by the dealers. A central depot for collecting the produces and selling them at the dearest market is a great desideratum, and in my humble opinion there are great possibilities for the same. But it will have first to be organized under Government supervision and control, until the idea gets sufficiently popular and confidence is inspired. These pooling agencies must command funds to make advances to ryots against their commodities. At present there are no facilities worth mentioning. Few banking agencies have facilities for keeping stock of these produces and making advances against them. In towns there are such conveniences for the benefit of merchants who buy of producers.

The opening of such facilities by banks will be of substantial good to the ryots. To this end more banks should be organized and they must be given concessions so that they may undertake such new tasks. In the matter of foreign trade the exporter in most cases gets money from banks on his presenting the bill of lading. In internal trade there is no such facility. The utmost the banks do for the consignor is to send his railway receipt and collect his dues for him. Such facilities ought to be extended for their benefit as well. Internal remittances are done at present only through postal means as money orders and insurances. Remittances through banks are very rare for the reason that the banks functioning in rural areas do not have business dealings with outside agencies. The linking of banks among themselves is greatly to be desired. Bills and hundis are not much in use in rural areas. In towns among merchants it fills a large place in monetary transactions. Bills from rural areas are not usually sent or cashed at other banks. The local bank keeps them pending the date of payment. A reduction in stamp value for hundis may facilitate their growth. The opening of licensed warehouses deserves to be tried in a few select centres. In my opinion it may prove to be full of possibilities.

3. The factors affecting the value of land are its geographical position, its topographical state, the nature and composition of the soil, the facilities for irrigating it and the right which the owner has over it. The value of wet paddy crop lands per acre is about Rs. 2,000. In respect of other classes of lands no such predication is possible as they vary very widely in different cases.

(a) Instances are rare for the reason that lands are in the ownership of jenniss who are ultimately liable for revenue. Small peasant proprietors are uncommon in the district. (b) The value of land in sale in court auctions depends on the publicity given to the sale. But generally parties do conspire to shut out possible and probable bidders. (c) Sale by private negotiation is regulated by the principle of demand and supply. If the vendor is anxious to sell, the vendee gets an advantage over him.

4. The one insuperable impediment is joint ownership and the peculiar law of succession. Apart from this there is no other impediment worth notice. There are no such banks in this district. The existing banks are not inclined to make advances on the security of the lands as such advances could not be relied on for payments in time nor are the banks in a position to make advances available for long periods. State-aided and State-guaranteed land mortgage banks should be opened. Such banks must be in a position to make advances for long periods, realizing their money in annual payments. Having a reserve bank to finance such institutions will prove an advantage. If all land transfers and equitable charges on land be recorded in the registers of the village headman and if the Registrar's Office communicates to the respective village headman's office all transactions affecting lands situate in the village it would facilitate reference as to the nature of encumbrance, if any, on land. If it is feasible to have this done, it will in many ways prove helpful in the ascertainment of rights and interests in land. It will make for a reduction in the cost of reference to registers, a reform highly necessary. Land mortgage banks may be financed from deposits, advances from central institutions and debenture bonds. But the success in attracting deposits will depend at first on Government guarantees, until public confidence is fully inspired in such institutions. Further, a guarantee from Government carries with it the duty of supervision of the bank's work on the part of Government. The Government should have the first charge on properties covered by debenture bonds so as to secure it against any loss.

5. The main cause of the indebtedness among people is the rise in the standard of living brought about by the inculcation of new ideas and the importation of new articles ministering to the convenience of people, as well as their indulging in intoxicating drinks. The system of education that is now in vogue has tended to create a dislike for manual labour of any kind. Unemployment among such half-educated and degree-holders is only adding to the indebtedness of their families. Old debts are paid by fresh borrowings. Ceremonies also come in to a large extent to make one indebted. Educating children which is day by day becoming more costly, is another source of indebtedness. The creditors in the first instance may be banks. But eventually private individuals and professional money-lenders are resorted to. Interest ranges from 9 to 15 per cent in the case of banks and from 12 to 18 or even 24 in the case of professionals. Compound interest at three months' rests and half-yearly rests is reckoned in many cases. Suing the party and bringing his property to sale by attachment or getting him arrested are the methods adopted for recovering debts.

6. So far as my knowledge goes, those who are engaged in agricultural pursuits are mostly keeping themselves idle when the land does not require their attention. No industry of any particular kind claims their attention apart from labour in the gardens. They go in search of coolie labour. As indicated by me elsewhere in the course of these observations, if along with the opening of depots for the distribution of agricultural implements, seed and manures by the Agricultural Department, if arrangements can be made for the training of these people in spinning, weaving, etc., through the same agency, it may be possible to minimise unemployment among them during the non-agricultural part of the year. All help required in this direction has to come from Government only. The side-industries that can be started and developed in Malabar are coir-making, bell-metal and other metal industries, etc. The Industries Department and the Agricultural Department should be made to collaborate in this line and find out all possible ways of getting the cultivator to interest himself profitably in such side-industries.

7. There is no linking of the co-operative movement with other banks in any sense. The former is independent of the latter. There is no competition between them in their respective spheres of business. The class of

people to whom the co-operative societies cater is different from the class with whom other banks deal. Co-operative societies in their present development are not hampered by want of funds. They get their deposits from the local people and from district and provincial banks. On the other hand, what stands in the way of their efficiently functioning is the difficulty of their constituents not being able to utilize the money they take as advances in the manner and spirit in which it is designed. For the level of progress co-operative societies have attained now, it is not necessary to think of ways for augmenting their financial resources, and, until they explore new fields and develop their possibilities in new lines, it will be too early to think of concessions in their favour.

II.—Indigenous banking.

1. As I have stated before, in Malabar the principles of banking have not been properly understood either by the people at large or by the managing agencies of banks themselves. In actual practice there is very little to differentiate between private banking firms and joint stock banks, as both the classes do exactly the same kind of business. The money-lender does not need deposits from the public. He takes loans whenever required. They all advance money on the pledge of ornaments and on personal security. The rate of interest charged by the individual money-lender is higher than that of banks. Indigenous banks receive various kinds of deposits. As a result of the expansion of joint stock banks, individual money-lenders and private banking firms are becoming fewer in number.

2. In busy centres or localities, the money-lender helps trade to a large extent. He advances money, though at exorbitant rates of interest, to dealers to a far higher percentage of the market value of the goods than any bank would in safety do. But he saves his risks by accompanying the dealer with the goods to receive back the amount advanced.

3. (a) So far as rural parts are concerned the capital invested or raised will mostly belong to private individuals.

(b) The volume of business transacted by them is very limited.

(c) In the case of individual money-lenders, their expenses for running the concern are practically nil, but private banking firms have to spend some money by way of salaries to one or two clerks for each firm, cost of stationery, account books and printed forms.

(d) The indigenous banks may generally be having accounts with joint stock banks or the Imperial Bank of India. There are some who view co-operative societies in a spirit of rivalry. But in my view this feeling of suspicion and competition is quite baseless as co-operative societies cannot do the kind of business generally done by other agencies or *vice versa*. It has to be admitted that the growth of co-operative societies has influenced the rate of interest tending to lower it, especially in the rural areas.

4. The indigenous banking firms use the same forms of credit instruments as are employed by joint stock banks. The individual money-lender advances money either on a letter or on promissory notes executed in his favour, but in villages even this letter is not taken when ornaments are pledged.

5. Usually they allow only short-term loans except when ornaments are pledged. The rate of interest charged will range from 18 to 24 per cent in the case of individual money-lenders, but private banks charge 12 to 15 per cent. There are what are called 'Hundikars' who collect in addition to the interest a commission called 'Hundikavatiam' of Re. 1 to Rs. 1-4-0 on every hundred rupees advanced. The rate of interest allowed on deposits will be from 6 to 8 per cent per annum.

6. The rate of interest charged on advances in kind is higher than what is levied for money-loans. Loans are taken by agriculturists either at the time of sowing or during the time of the cultivation and such loans have got to be cleared as soon as the harvesting is over. For such advances the interest usually paid is 2 to 3 measures of grain for every ten measures, irrespective of the time for which the advance is left outstanding. To relieve this class of debtors, the best that could be suggested will be to open agricultural depots in every village under the department and through

those depots make advances to cultivators of paddy or similar produces, on good security, as well as of manure and let on rent agricultural implements. This will confer a substantial benefit on the community besides going a long way to relieve their indebtedness.

7. It cannot be said that the indigenous banks or bankers are viewed with any prejudice. But at the same time it is a fact that people prefer to deal with well-organized banks as the constitution and working of the latter ensure greater uniformity and openness of transactions. Yet, there are a few who choose to deal with individual money-lenders on considerations of prestige as they want to avoid the publicity which is attached to bank transactions. The protection that is required for this class of bankers is in the matter of producing their accounts in suits. The same facility that is at present vouchsafed to joint stock banks may be extended to them as well, casting on them the corresponding duty of having their books audited by competent auditors. Generally there is no complaint but there is scope for troubles to arise, especially in the case of money-lenders, as their accounts are not kept in proper forms and securities such as ornaments are not kept in a desirable manner.

8. It would be advisable to give legal recognition to their position as bankers and impose statutory obligations on them with a view to safeguard the interests of their clients in dealings with them. This may result in making them more serviceable to the public.

9. Most of them are found to be thriving beautifully and growing richer in a short time.

10. There are such instances, but only for temporary periods. Very few have overdrafts or cash credit allowed to them by bigger banks. They do not generally deposit their moneys in fixed deposits with other bankers nor do they purchase Government securities against which they may raise advances for their use.

11. Instead of Government giving great concessions to the Imperial Bank of India, it will be advisable to organize a central reserve bank through which financial help may be given to a local bank with a local directorate in each district so that it may finance indigenous bankers more freely as such a body will possess greater knowledge of the local conditions and of the credit of individuals.

12. As no proper accounts are maintained by this class of people, it is difficult to assess with any degree of approximation the volume of their dealings.

III.—Investment habit and attraction of capital.

1. The facilities or means in existence for fostering the habit of saving and investment are (a) subscribing to chit funds and kuris, (b) contributing to provident funds organized under co-operative societies, (c) lending out small amounts and (d) opening accounts with post office, banks or co-operative societies, etc.

The habit of investing savings in silver and gold has been very strong with the majority of the people and communities. Even among backward classes this habit is so strong that on ceremonial occasions the parties try to excel one another by the number of ornaments worn by them. The habit of hoarding coins was prevalent due to lack of facilities for sound investments and the prevailing scare of dacoities and outbreaks of communal unrest.

2. On account of the raising of the amount of initial payment for postal cash certificates, it has ceased to be as attractive as it was. I would suggest that the old terms may be retained and that they may also be made negotiable so that if any temporary loan be required, it may be raised on the security of this instead of the owner being obliged to encash it. The stipulation in the savings bank rules relating to the minimum amount of monthly balance for purposes of calculating interest may also be modified. This form of investment is availed of by people who earn fixed monthly salaries or incomes. The modification on the line indicated above may tend to attract a wider public, provided adequate facilities are given at all post offices,

3. Government securities are made available to the public at the time of the floatation of loans under the Imperial Bank scheme. At other times the people, who need them, purchase through banks. In my opinion it is absolutely necessary to give special facilities to small agriculturists and investors in the matter of subscribing to such loans. Bonds of a certain minimum value may be set apart to be purchased by this class of people, making arrangements for their sale through post offices. If within a certain prescribed period the full amount is not forthcoming from this class, then the balance left over may be thrown open to other investors.

4. The abolition of stamp duty on cheque has certainly conduced to the growth of the habit of using cheques. But it must take some more time before the public get used to it, fully realizing the benefit thereof. The use of the vernacular script for cheques as introduced by the Indian Bank, Ltd., Madras, will, I trust, do a great deal to popularize the cheque habit.

5. The banking habit is of remarkably slow growth in the country. This is an unmistakable sign or index of the poverty of the country. It is because people have little to spare after meeting their current expenses that they are not able to think of investments. The people of the country are proverbially simple in their ways and life. It is true to some extent that on ceremonial occasions there is waste and vain display. Still they are unable to make any saving worth mentioning. In this respect, too, Malabar will be most backward, I fear. As I have pointed out, the joint family ownership of property and inheritance law peculiar to the country hamper the growth of the investment habit. Dead investments are preferred to mobile ones for fear that the manager for the time being may fritter it away according to his whims and caprices.

The control that is now exercisable over the manager of a tarwad is very imperfect. Only his power to alienate property is curtailed. He may spend away the income unchecked. He is not accountable to any one for his management or administration of the estate. The junior members have no other voice than a right for bare maintenance. That is the reason why a large number of Malayalees migrate to foreign parts in search of employment. For trade and commerce they will have no capital or money of their own and are unable to obtain the necessary credit. If they till their family lands, the fruit of their labours becomes a common family benefit and not their exclusive gain. This accounts for Malayalees becoming mere professionals.

No doubt the opening of new branches by the Imperial Bank of India has done much good to the public, especially to the commercial class. It is regrettable that they do not give to smaller bankers the ordinary facilities that they allow to private individuals in the matter of overdrafts on approved security.

**Written evidence of M.R.Ry. T. GOVINDAN NAYAR Avargal,
B.A., B.L., Vakil, Chowghat.**

1.—Agricultural credit and credit facilities for small industries.

1. One of the many difficulties under which agriculturists labour in this country is the absence of credit facilities. Credit is a most powerful agent that contributes to the production of wealth and owing to a combination of peculiar circumstances, credit facilities are inadequate. One cause is the want of capital which does not increase with the population as in most civilized countries. Land and labour which are the indispensable requisites of production exist in abundance, though not fully utilized, but here the chief requisite for the increased production of wealth is increase of capital. Another thing is that owing to social and religious differences and other peculiarities of the country, the individual's credit is not as good as it might be. Agricultural operations and improvements are therefore inadequately financed and the needy cultivator gets no assistance either from the Government or the banks. The little assistance that he gets is from the indigenous money-lenders whose terms and conditions are onerous and in some cases even ruinous. The rate of interest varies from 15 per cent to 30 per cent per annum, the usual period of the loan being three or four months which depends upon the nature of the crops raised. Sometimes the loan is made repayable in grain at the time of harvest in which case the transaction is still more disadvantageous to the borrower. In the case of small loans the security generally takes the form of jewels and household movables, sometimes landed property is also demanded to be given as security in which case the rate of interest may be a little less and the period of repayment longer. In a few cases, loans are also granted on the mere promise of the borrower and a pro-note or other voucher is sometimes taken; but these are exceptions.

Very few cultivators have succeeded in obtaining loans from the Government. Owing to the wooden character of the machinery and excessive red-tapism, it is not possible for the ordinary agriculturist to get any pecuniary assistance from the Government. It is said that many persons applied for loans after the floods of 1924, but it is not known whether any succeeded. The security demanded by the Government is impossible, as they require five and even ten times the security which the ordinary money-lender demands. Probably the defect lies in the method of valuing the land for purposes of loans. Owing to the peculiar land tenure of Malabar it is difficult for the Government officers to appraise the tenant's right correctly. The customary value is much more than the legal, but the Government looks at the question only from the latter point of view. The Government should therefore utilize the services of competent appraisers of landed property, who are conversant with local conditions and circumstances. The assistance rendered by the Imperial Bank is equally unsatisfactory. It may be said that a big concern like the Imperial Bank cannot do much for small people but the bank is in possession of immense funds of the Government free of interest and it will be instructive to hear the bank's account of the assistance rendered to those who ultimately contribute to those funds.

Co-operative banks, so far as I am aware, give no better assistance in the direction. Their business is now conducted rather like that of an ordinary joint stock company. Co-operative associations in Malabar have not attained any large measure of success, while different opinions have been expressed by those who have observed the movement in other districts. They lack the essential principle of co-operation, viz., mutual goodwill and trust, which are indispensable for the permanent success of the movement. Much capital is not now raised by the subscription of the members and the small fund that they get from the central banks is appropriated by the president and the panchayatdars who manipulate the account in such a way as to conceal the real nature of the dealings. The result is that many of the societies are in a dormant condition, but this need not cause any want of confidence in the future of the movement which is, as yet, only in its infancy, and co-operation, if truly carried out, is certain to prove one of the most effective agencies for securing improvement in the social and economic condition of the people.

It is therefore important to consider how this is to be carried out. The term 'co-operative' is now applied to many concerns which are not conducted upon strictly co-operative principles, but even applied in this modified form, the movement can confer great benefits upon the general community. As it is, the societies do not work with any definite common object and the principle of the movement is imperfectly understood. The salvation of rural India lies in the development of this movement, but, for want of propaganda and effective supervision, it is languishing. The Government is no doubt creating fat appointments which carry high salaries and travelling allowances but much practical work is not done. One remedy that I suggest is the reorganization of the lower grades of the department on a different model. The Government is now incurring large expenditure on account of the Agricultural Department but it is doubtful whether the agriculturists get any real benefit for this heavy expenditure of public funds. Whatever may be the report of commissions and committees, people intimately acquainted with the cultivating classes believe that the department has not fulfilled the expectations entertained. The lower grade of the department at least should therefore be reorganized and with a view to have co-ordination of the Departments of Revenue, Agriculture and Co-operation which are connected to a certain extent. Revenue inspectors should be recruited by a slightly different method. They should be given a short training in agriculture and co-operation and their number should be increased; agricultural demonstrator's appointment may be abolished as it is notorious that these officers do no practical work at all now. Their existence is not even noticed in some places. So also Deputy Directors of Agriculture whose pay is out of all proportion to the work turned out by them. They keep large and expensive farms which are inaccessible to the ordinary cultivators who, moreover, cannot adopt the costly methods of the department. The better and more economical method is to popularise the improved implements and the improved methods of cultivation through prominent agriculturists of the village who may be encouraged by suitable means of recognition.

Another remedy is the establishment of village panchayats which should be gradually made autonomous and all matters relating to village economy should be entrusted to their care under proper supervision. Educated young men should be attracted to the village to give a lead to their less fortunate brethren and their services linked with the Government. The problem is no doubt difficult, but it is possible for the Government to devise proper measures.

3. *Value of land.*—In a country like Malabar where the system of land tenure is peculiar, it is difficult to estimate the value of land. Ordinarily the rights transferred are the jenmam and the kanam. Sometimes the jenni will be in possession of the property in which case he may cultivate it himself or lease it to another who cultivates it for him and pays him what is called an economic rent. Such a lessee is called a verumpattandar whose rights have no saleable value. His tenure is precarious. In other cases the jenni will have demised the property to another after receiving from him money consideration the amount of which depends upon several circumstances. This is the most common tenure. The customary period of the demise is twelve years which is the term now recognized by judicial decisions. He has got a valuable interest in the land which can be made the subject of sale, mortgage or lease. The influence of British courts has been unfavourable to this class of tenants, they being treated in law as mere mortgagees who are liable to be paid off like any mortgagee. The tenancy reform has been the subject of agitation for many years and has made great progress. This is the burning question in the district at present, being the subject of the Tenancy Bill now pending before the Legislative Council.

The value of an acre of jenmam paddy land varies from Rs. 800 to Rs. 2,000 according to the quality of the soil and the crops raised. The highest price is obtained in Walluvanad and Palghat taluks which are noted for paddy cultivation. The value of an acre of garden (cocoanut) ranges from Rs. 900 to Rs. 2,000 if it is the absolute jenmam right that is transferred, but if the right transferred is only the kanam, the value varies from Rs. 700 to Rs. 1,500. In the case of other crops the value will be less. The value is of course determined by the locality of the property and the suitability of the land for cultivation. Other factors which affect the value are the exigencies of the moment and the degree of competition for the land existing in the particular locality. If the transferor is a

debtor and the property is under mortgage, the price will be less. The price will be still less if the sale is involuntary as in the case of court sales. The matter will be still worse if a rich landlord or other influential person or money-lender of the locality is the creditor. In the case of *kanam* property, the character of the landlord is also an important factor.

After the War, the price of lands has gone down considerably. There is great distress in the land and many are trying to dispose of their lands. The price that is now obtained does not however show that the people are in a prosperous condition. That is because land is the only safe investment and, to many, the possession of a plot of land is not a question of profit, but of subsistence. There are few other industries from which one may earn a living. Besides, land is regarded as giving some sort of dignity and status to the owner.

5. *Indebtedness*.—Under ordinary circumstances, it is difficult to get a correct estimate of the indebtedness of the agricultural classes, but for the educated men closely acquainted with local conditions and in intimate touch with the people, it is not only possible but easy to get a fairly correct estimate. I myself attempted an economic survey of a few typical *desams* (villages) during the census operations of 1921 with a view to make an intensive study of the economic conditions of the rural classes and I managed to collect certain statistics, but as I was very busy then and did not get much help from the census enumerators, the enquiry could not be completed. Afterwards, I pursued it on various occasions. Ordinarily, I took a group of thirty families as the unit. I investigated the condition of each family, collecting the facts under certain definite heads, and taking the figures of income and expenditure for a group of a hundred families residing in a specified tract. I found that the balance sheet of the group showed a large annual deficit. Roughly the figure is Rs. 5,000. One way of getting a fair estimate is to institute the enquiry through the village officers who should be entrusted with the method of eliciting information. A second way is to include this information in the next census. The ordinary census is probably too restricted in its range. It may be made to include much valuable information which is not collected in the present decennial enumeration, and without ensuring the absolute accuracy of the information, the return can be treated as much more than a guess. A third way is to take a special census of wealth so as to include indebtedness. An Act on the model of the British Census of production Act of 1906 may be passed providing for a periodical census of the production of agriculture, trade and business of the country with indebtedness. The Board of Economic Enquiry or other appropriate authority may be empowered to compel return without publishing individual returns. A special debt column may be inserted in the census paper.

The records of the Registration Department and the accounts of banks and money-lenders will also show the extent of indebtedness.

All reports, however, agree as to the enormous indebtedness of the rural population; such indebtedness has been steadily increasing after the late European War. The causes are many and various. The general underlying cause is, however, the poverty of the masses. The holdings are small, the agricultural implements are primitive and irrigation facilities, especially in Malabar, are not good. It may be said that the average rainfall in Malabar is good but to an agriculturist it is not the average rainfall that counts. The rains should be timely, neither more nor less at a particular time and latterly these are exceptions. Consequently, there is failure of crops. Sometimes, the crops are entirely destroyed by the floods in which case, if the damage is done at the early stage, agricultural operations have to be repeated involving fresh expenditure of money and labour. Adverse agricultural seasons are becoming common now. There is great distress especially in the coconut tracts of the West Coast where the yield is getting less and less while low prices have been ruling ever since the War, especially during the period, of hostilities, viz., 1914—1918 when the shipping of cargoes to foreign countries was restricted and even suspended. A crisis of no ordinary dimensions has therefore arisen in the condition of those who are sustained by this industry, which demands the earnest attention of the Government.

The ordinary standard of comfort of an Indian agriculturist, it is well known, is very low, it may even be said, unconceivably low, but even according to that standard, there is no surplus income in an average year. In

fact, from the small plot of land cultivated by him, he is unable to obtain enough food to provide a bare subsistence. There are no subsidiary industries which afford any additional income. There is consequently large deficit in his budget under the accumulated burden of which he gradually sinks into the deepest depths of misery. The situation, grave in itself, becomes worse by force of social customs which scorn manual labour and bind a man to the calling of his caste.

There are many other contributory causes of this state of chronic indebtedness of the ordinary agricultural family. Every adult person marries, the Nayars being an exception, and the want of food which brings on diseases and famine conditions, is the only check on population. Money is lavishly spent in the celebration of marriages, funerals and other social functions and although the Hindus of Malabar with the exception of Brahmmins do not now incur heavy expenditure on account of marriages, they continue to spend large sums at funerals. Many borrow for this purpose as also for annual festivals of which there are many in Malabar.

Educational expenses now form a large item of expenditure among the upper and lower classes, especially the Hindus, and the increasing expensiveness of English education has created a problem of no small importance. Money is borrowed for this purpose and many families once in affluent circumstances have been ruined in this way. Many parents send their children to schools and colleges because they are at a loss to know what to do with them or are misled by the examples of a few who have been rewarded. Either higher education should be made prohibitive or it must be made cheaper. Probably, the best course is to impart vernacular education on modern lines.

House building, land purchase and litigation are some of the other purposes for which money is borrowed. Of these the second is the most serious evil, there being much land-hunger among the peasantry. These often turn out to be improvident transactions, landing the people in unexpected pecuniary difficulties.

People have also to borrow not infrequently for payment of land revenue. Though land revenue is not very heavy in Malabar now, all taxations combined, viz., central, provincial and local, press severely upon the people except the middle classes and a further increase in either of these will be a great calamity.

A more serious evil is the present landlordism which is exhibited in its worst form in Malabar. The Nambudiri Brahmin jenuis who form the majority of the landowning classes in Malabar are the most conservative people in India. They are very orthodox and have most queer and antiquated notions of men and things. They take no interest either in their lands or tenants, but simply exact money which they hoard. In their own interests and in the interests of the country, they must be given better education and initiated into the principles of banking, finance and agriculture. Precarious and oppressive as the tenure of the cultivators generally is, they have to submit to it for which they cannot get any redress. The landlord's dues, legitimate and illegitimate, aggravate their difficulties and increase their indebtedness. The tenancy law should therefore be amended.

The creditors are mostly the landholders and other well-to-do persons in the village, indigenous bankers and money-lenders, not all professional, and in a few cases banks and co-operative credit societies wherever they exist.

In the case of professional money-lenders, the rate of interest is very high varying from 18 per cent to 30 per cent per annum, but they charge a 'rattam' (commission) which, in the case of short-term loans, makes the rate of interest exorbitant. This commission varies depending upon the necessities of the debtor and many other circumstances and is deducted out of the loan and only the balance is paid to the borrower. Sometimes some interest is taken in advance and, if default is made, the bond will be enforced without giving credit to the interest received in advance. If it is not enforced at once, a further commission will be taken as if a new transaction had taken place. The Usurious Loans Act should therefore be applied and amended, if necessary, fixing the maximum rate of interest.

If no accommodation is given, a suit is promptly filed and a decree obtained and if the debtor is a man of position, he is arrested. In some cases, if attachment before judgment of the movables is applied for, to avoid the disgrace, the debtor somehow manages to satisfy the claim. In the last resort, the creditor proceeds against the immovable property of the debtor.

In the case of banks (limited) the rate of interest is lower and no commission is ordinarily taken. It must be said to the credit of these banks that they have brought down the rate of interest wherever they exist. Their number is limited and should be increased.

In the case of the other creditors who are not professional money-lenders, the loan is advanced on the security of land and although the rate of interest is moderate, not being more than 15 per cent per annum, the bond will contain provisions for enhanced interest in case of default, interest on arrears of interest, compound interest, etc. It is not always that such provisions are strictly enforced. Some concession is usually made but here the chief evil is that the creditor waits too long, especially if he covets the property and very often the mortgage is ultimately foreclosed.

A law must be passed providing that the aggregate interest that may be in any single case shall not exceed the principal amount.

I think many efficient cultivators have become tenants and even landless labourers on account of the landed property passing on into the hands of creditors who are either non-cultivating landlords or professional money-lenders who take little interest in cultivation. Such a process is now going on and must certainly bring about a change in the state of cultivation inasmuch as such a tenant will have no motive to be industrious and the land has a tendency to deteriorate.

A law should be passed providing that a person shall not be permitted to make fresh acquisitions of landed property beyond a certain extent in any particular locality. The Civil Procedure Code should also be amended providing that the decree-creditor shall not ordinarily be permitted to purchase immovable property directly or indirectly in court sales. Owing to the local influence of the creditors, the majority being big landlords and money-lenders, men of moderate means are unwilling to compete with them as they run the risk of incurring their displeasure.

2. *Marketing.*—I think that the existing facilities for marketing the principal agricultural produce are not satisfactory. Take for example, the coconut which is the chief raw produce of the Malabar coast. Coconuts which are plucked and gathered once in a month are either sold at once or stored for a few months. In the former case, they are husked then and there. The kernel is dried and oil is extracted chiefly by means of the primitive oil mill which is very cheap and easily worked. This is an important Malabar industry followed by many people. This is the chief occupation of the industrious Syrian Christian community, especially in the south where it is solely confined to them. They sell the oil in retail to big traders who send it in large quantities to Cochin whence it is exported largely to foreign countries. The raw husks are also a valuable commodity, coir being manufactured out of them. This is also an important industry but owing to the innumerable processes of manufacture which could be done only in different places, there are more intermediaries in this industry than in any other. The raw husks when separated are purchased by certain businessmen who again sell them to others who take them in large numbers chiefly in boats to the riverside, sometimes at a great distance, where they are soaked in salt-water which is supplied by the long line of backwater system. There they remain for some ten months when they are exhumed and beaten well. The fibre is then extracted which is of varying fineness, being afterwards twisted into coarse yarn used in the manufacture of cordage, matting, etc., which is an important industry in England, the United States and other foreign countries. Cochin is the chief centre of this trade.

This industry was in a flourishing state in the pre-War period, but during and after the War, there has been much depression, the price of both the oil and coir being very low, especially of the former, and there is

an impression that the European merchants who monopolise the trade in both the articles purposely keep down the price. As the prosperity of the greater portion of Malabar is bound up with this industry, the matter deserves full investigation.

4. *Land mortgage banks.*—The compulsory registration of the instrument of mortgage as provided by the Registration Act, the provisions of the Civil Procedure Code (order XXI) relating to the sale or immovable property and the provisions of the same code (order XXXIV) relating to suits on mortgages are some of the legal obstacles to mortgage of land. No such bank exists in Malabar to my knowledge but I know that some limited liability banks were lending money on the mortgage of lands. The practice has been, however, discontinued owing to the difficulty of realization. It is the delay that makes land a bad banking security. A banker's investments must all be 'liquid' it being against all principles of banking for a banker to lock up his money for long periods. He is liable to repay all he holds on current account at call and on deposit at fixed intervals or short notice. He must therefore place it in such a way as to enable him to call it in readily and this essential condition does not exist in the case of loans granted on the security of land.

Another drawback is in the intricacies of the law of landed property which make land mortgages hazardous transactions.

With all these drawbacks, in the present backward state of the country and the low credit of the average agriculturist, land mortgage banks are desirable institutions. The difficulty is to work them satisfactorily. First of all, undue facilities should not be given to people to get into debts, for that will be encouraging improvidence. It is necessary, therefore, to enquire carefully into the purpose of the loan and only *bona fide* applications for loans should be granted. The management should be entrusted to safe hands under Government supervision. There must be a separate local directorate or advisory body who should assist the management in the disposal of the loan applications. Everything depends upon the personnel. On the one hand, there is the risk that the paid manager not having direct or immediate interest in the prosperity of the business may not care very much for its fortunes. On the other hand, the rigidity of management may detract from the utility of such institutions. The manager must be made to take as active an interest in the undertaking as if it were his own. He must at the same time act as if he were engaged in a humanitarian work. Can we get such people? That is the all important question.

The interest should be as low as possible and there should, of course, be a uniform rate. The interest must be made payable at fixed periods, say, by two annual payments. There must be a summary way of realizing it and in the case of a State aided bank, it may even be considered whether it is not possible to realize it as if it were arrears of revenue and along with the revenue payments. In fact, in a long-term credit, the payment of interest is the thing. Otherwise, the borrower loses the land and the bank the loan.

In the case of small loans at least a registered document may be dispensed with and, with the proper safeguards, the bank may be given the power of foreclosure or sale subject to a right of civil suit to the aggrieved party.

The question of the record of rights is full of difficulties and is not capable of easy solution. Nowhere is it more difficult than in Malabar where the average holding is very small, being divided into plots of microscopic dimensions; but with proper safeguards and under good supervision, the village officers may be made primarily responsible for the registry of holdings and to them every transfer should be notified and every reference made.

The working capital of the proposed bank should be derived from Government and other deposits, funds from central institutions and share capital. It must be a State aided or guaranteed bank, the Government taking an assignment of the mortgage in the event of non-payment, not to sue but to realize the security summarily, giving every concession to the deserving debtor which only the Government with its large resources is capable of doing.

The Government may organize credit institutions either in the interests of borrowers who can join together and found credit institutions or in the interest of lenders who can work the concern on lines similar to those of ordinary banks. The principle must be to interpose the bank between the borrower and the lender, to guarantee the lender against all risks with a view to secure reduction of the rate of interest and spread the payment over a long period, say, 25 years, providing for a gradual satisfaction of the entire debt.

Switzerland furnishes the best example of this co-operative policy. In most of the cantons, private capitalists seldom engage in money-lending transactions. The mortgage and saving banks practically monopolize the business, some of the banks being purely State institutions, others being of mixed type. This arrangement has certain undoubted advantages. Under the direct system of private lending, creditors exercise a sort of unwholesome influence over the debtors and the relations become gradually strained. Men who borrow money from banks do not lose their dignity and independence to the same extent as when they borrow from private persons. The bank's relations with the debtor are of the simplest and most business-like character. Men who have money to invest need not take the trouble of hunting after debtors, enquiring into their worth and ultimately going to law to realize their claims. Similarly, the man who wants to borrow and has security to offer can go to the banks which help him to borrow on very easy terms.

The Government may help and control these credit institutions in the following ways:—

- (1) Granting a subsidy to the reserve fund and subscribing for the debenture bonds of the banks.
- (2) exempting the bank's profits from income-tax and their dealings from stamp duties at least during the first few years of their existence.
- (3) ordering inspection of the account by its officers,
- (4) undertaking or facilitating the work of collection, and
- (5) permitting the bank to foreclose the mortgage or sell the mortgaged property without going to law.

It must be said at the same time that there are certain economists of unquestionable authority who do not appreciate the usefulness of land credit. They deprecate these credit organizations, whether State banks or private, on the ground that there is no great social advantage in making it easy for small land-holders to borrow money on the security of their lands. They would, on the other hand, insist upon the adoption of measures restricting the right of landowners to borrow money by offering their land as security. This is effected in the United States by what are called *homestead laws* which secure homesteads to a certain extent beyond the reach of creditors.

Malabar is essentially an agricultural country. It is not rich in the sense that there are many men who have amassed fortunes. There are no extremes of wealth and poverty here such as we have in other districts. Wealth is evenly distributed, there being many middle class people. In such a country there is ample scope for land mortgage banks. The difficulty is to finance them. The possibility of levying a small contribution from land-holders, big and small, the smallest alone being exempted, to be collected like the land revenue and along with those payments may be considered. Willingly most of them may not. Why not legislate?

6. *Subsidiary industries*.—There is no doubt that due encouragement given to industrial pursuits other than agriculture will go far towards the solution of the problem of unemployment which is particularly grave among the lower middle classes; but there are difficulties which require more than the ordinary ability and courage to surmount—difficulties which are aggravated by the rigidity of the caste system which is exhibited in its worst form in Malabar. Take spinning and weaving for example. Custom permits none but of the weaver caste to touch the spinning wheel and the fly-shuttle. This problem may be said to have been solved to some extent by the introduction of the charka which is considered to be a dignified instrument, but if I am not mistaken, it is not very popular. Spinning is a good domestic industry which requires better encouragement. Moreover, the work need not be done openly and may be resorted to by those who want to avoid the social stigma which is supposed to be attached to it.

The other difficulty about spinning and weaving is the cost of production. Industry on a small scale has no chance of success owing to the large influx of the machine-made products of the West and it is said that without adopting modern methods of production, India cannot find sufficient occupation for her teeming millions. Protection is therefore suggested and whatever be its wisdom, there can be no doubt that the industry can only flourish under the benign care and assistance of the Government. Mr. Chatterton, an authority on such questions says, "To achieve anything in this direction, industry in the future must be organized in intimate association with the Government and measures must be taken to secure Indian markets for the Indian producer." Mr. Bruce, the Australian Premier, states that he would exclude from the Commonwealth what could be made in Australia, and a similar course is even more essential in India.

The opening of depots for receiving the cotton spun under proper supervision and financed rightly may be one encouragement to the industry.

Coir-matting and jaggery are some of the industries of which I have some personal knowledge, but I cannot at present say how these industries can be encouraged. However, owing to the low price of coconut-oil prevailing now, the question of manufacturing sugar out of jaggery (coconut) may be considered.

II.—Indigenous banking.

1. A bank, in the proper acceptation of the term, is an institution for the deposit, issue and remittance of money and a banker has been defined to be one who honours cheques and collects them. The increase in the number of limited liability banks is one of the most striking features of modern economic life and their rapid growth is due to two principles—the co-operative system and limited liability. The first enables any one who has a rupee to invest to put it in a joint stock concern and the latter affords a guarantee that he will not in any case be liable beyond the value of his share.

The function of a modern bank is the financing of trade, agriculture and industry and although, in performing this useful duty, it earns a profit to enable it to make a reasonable return on its subscribed capital, it exists also for the promotion of public welfare.

An indigenous banker does not pretend to do any public good. His function is very modest and limited, viz., earning a profit and that as high as possible. No doubt he lends. He also succeeds in getting deposits sometimes. He also assists in the transmission of money by giving drafts; but his principal function is lending money. In adverse seasons and in periods of restricted credit he lends no helping hand to the needy agriculturist or the small trader who goes to him, much less does he give accommodation in periods of financial crisis, not to say, of panic. This is a true picture of the Tinnevely Brahmin money-lenders who are popularly known as 'hundi merchants' in Malabar. They may be said to be the Jews of Malabar, a much-hated, miserly, selfish, grabbing money-lending class, and like the Jews, they exact the pound of flesh. With money-lending they combine cloth trade, especially a peculiar cloth called *pavu* (lace) which finds a ready sale in Malabar, being a special production of the handlooms of Tinnevely. There are many such Brahmins in Malabar, including Cochin and Travancore, and they suck the life-blood of the people. Till recently, their rapacity knew no bounds and during the period of the late War when the money-market was very tight and the price of the coconut produce very low, they proved a veritable curse in the land and it is only the rising of the banks established on modern lines—small as some of those concerns are and limited though their number—that has acted as a check on their rapacious methods.

7. There cannot but be a prejudice against such a class which is chiefly due to the undisclosed state of their financial affairs, their extortionate demands and the usurious rates of interest charged. Their system, however honest, does not inspire confidence in the public. Most of the concerns belong to individuals who live in distant countries, leaving the management entirely to paid agents whose methods of dealing are highly questionable. Their business is not conducted on modern lines which, though not the only sound lines, on the whole inspire better confidence in the community.

I do not know what protection this sort of bankers require or expect. In fact, it is the public that want protection. Much less should any legal or other facilities be extended to them. Of course, I am speaking only of the typical Brahman money-lender who has not many redeeming qualities. Probably, this description will not apply to the Chetti money-lenders who form a more important community. I have not much personal knowledge of their methods. Probably, they are a better class.

It is hopeless, therefore, to expect this class to be of service to the general community and any attempt to improve their system, as it is, is bound to fail. It is even doubtful whether it will receive any considerable support from the particular organization although they will be glad to have outside help. The system should, therefore, be changed, root and branch, and banks on modern lines should be established.

While this is generally true, as I stated, of the typical money-lending banker, I have no doubt that there are many public-spirited and liberal-minded bankers who labour under serious difficulties and their system can be improved and consolidated so as to be of better service to the community.

The first difficulty is, of course, want of capital without which banking concerns cannot prosper and when we say that capital is necessary or should be increased, it is the same as saying that credit, viz., power to borrow, should be expanded and that is exactly what is restricted. The average Indian has not much in the shape of surplus savings to invest in banks either as shares or as deposits and the little he has, he is slow to put in banking concerns not necessarily because he believes they are dishonest or inefficient but chiefly because he is not habituated to investment in financial concerns in the management of which he is neither interested nor takes any part. In other words, he has no confidence in them. That is a matter of slow growth. If this is the ordinary state of affairs, how much more serious should be the situation in exceptional times such as those of financial stringency or crisis! The vaguest rumour is enough to start a merciless raid on the bank against which it is directed, whether maliciously or not, and, when once it begins, nobody knows where it ends and unless the pressure is immediately relieved, the unfortunate victim is sure to succumb under the sudden contraction of credit which always accompanies a panic and he is ruined in most cases for no fault of his and with him some of his innocent customers too. Does the Indian banker get accommodation in such cases? That is one of the problems of Indian banking.

Another is the question of assistance in normal times. The complaint is often made that the Indian banker does not get that assistance from the Imperial Bank which it is his right to expect. The Imperial Bank is in possession of immense funds of the Government free of interest and whether it competes directly with the Indian Banks or not, there is, it is said, unfair and unwholesome competition between foreign joint stock banks which are assisted by the Imperial Bank and Indian banks which get no such assistance in any appreciable form. Coupled, therefore, with the question of encouragement to Indian banks is the further question of the restriction on foreign banks which, on account of their long connexion with India, better organization and resources, compete on unequal terms with the Indian concerns.

State supervision of indigenous banks where the same is possible and necessary is another problem.

A still more important problem is that of currency. In the pre-war period when, I believe, there was a gold standard and a gold currency, Malabar, I know, was more prosperous and the people had more money and better resources. It was when gold went out of circulation that adversity set in. This question is, however, for experts, but the fact is there.

The last but not the least is the question of the *personnel*, the importance of which cannot be exaggerated in a matter like this. In fact, all depends upon this. The question, therefore, of the training to be given to the Indian, intellectually as well as morally, should, therefore, engage the earnest attention of the Committee.

III.—Investment habit and attraction of capital.

1. Besides the banks which are only becoming popular, the chit funds (called kuri in Malabar) are the only means for encouraging savings. Regular periodical contributions are made and in the end the subscriber gets a lump sum. This is one aspect of the matter but there is the other. Many stakeholders misappropriate the funds and subscribers are put off. While heavy rates of interest are levied on defaulting subscribers, interest is paid to subscribers when stakeholders make default. Sometimes the penal provision of the bond are enforced against the subscribers who have won the prize. They are consequently put to immense loss. A law should be passed for regulating if not altogether abolishing these transactions.

I think that the public have not sufficient facilities for investing their small savings especially those in the interior parts. One way of improving them is to expand the co-operative movement.

I think the people are still addicted to the old habit of investing in gold and silver, especially as jewels. This is not a particularly serious evil in Malabar where a few landlords of the orthodox class hoard wealth in coins and currency notes. This is said to be the relic of the old insecurity of property. It may be due to want of confidence in banks. Land is the only safe investment according to their old world notions and till that is secured, money remains idle. A few will not part with it even if land is available for investment.

Written evidence of M.R.Ry. M. P. M. RAMALINGA MUDALIYAR
Avargal, Member, Tinnevely District Board, Alwarkurichi,
Ambasamudram Taluk.

I.—Agricultural credit and credit facilities for small industries.

1. The tenant gets advances by executing a pro-note in favour of the landlord or money-lender; or the landlord supplies seed and manure and recoups the cost with interest in kind or money during the harvest.

The landlord borrows money from the money-lender or from the co-operative society if it exists within his village.

(c) There is no crop insurance till now in the case of failure of monsoon. But a company has been started this year at Madras, and time alone will show how the company is popular with the agriculturists. But it is the practice among landlords who lend money at interest for cultivating expenses to get the whole amount from the tenants in case of failure of monsoon; it must be said in this connexion that the sudden fall in the price of paddy in this year without a corresponding reduction in the price of all other cereals and pulses, has benumbed the enthusiasm of the agriculturists to spend more money on cultivation.

Under the rules framed under Act XIX of 1883 and Act XII of 1884, loans for the purchase of seed, grain, cattle, etc., are granted to the ryots by the Government. But it seems to me that this kind of loan is not popular since the maximum period could not be more than one year.

The minimum interest charged by the money-lenders is 12 per cent and the maximum varies according to the urgency or the capacity of the person to pay back the money borrowed.

3. In my district the value of the lands depends upon these factors :—

(1) Whether the land in question is dry or wet.

(2) Whether the source of irrigation is perennial or intermittent or rainfed.

(3) Whether the nature of the soil is loamy or sandy.

(4) Whether the land in question is neither water-locked nor in difficult reach of water source.

(5) Whether the yield of the land is sufficiently remunerative for the labour and the expenses involved in it.

In the case of lands sold under clause (a), the price is generally far below the normal price for want of due publicity, while in the case of lands under clause (b), the sale price depends upon the future possible litigation about the lands and easy delivery of possession from the judgment-debtor. But lands when privately negotiated fetch a good price if the vendor is in affluent circumstances.

The price of the best wet lands yielding two crops varies from Rs. 3,000 to Rs. 4,000 per acre; that of other descriptions from Rs. 1,800 to Rs. 2,000 per acre; that of the dry lands from Rs. 10 to Rs. 500 per acre.

4. There is no legal impediment to mortgage of land in my district. The record of rights is enforced only in certain districts. If strictly enforced, the creditor will be able to know at a glance the solvency of the debtor. According to the Transfer of Property Act, certain instruments are not compulsorily registrable such as sales below Rs. 50 and charges upon properties. These should be made compulsory registrable. Further, the attachment of property by a court order is not communicated to the sub-registry office. If attachment made permanent is communicated to the Registration offices and it is noted in the record of rights, the creditor will have a full knowledge of the solvency or credit of the debtor. This must be remedied by suitable provisions in the Acts in force.

II.—Indigenous banking.

There are hundi banks in every village, some with their capital and others with loans. They charge exorbitant rates of interest. It is my humble opinion that if there are branches of co-operative banks in every village, the agriculturists will gain a good deal.

III.—Investment habit and attraction of capital.

1. People are investing their hard earnings by subscribing to a chit either of auction or fixed premium, conducted generally by the local hundi bankers. Most of the chit karaswans, namely, conductors, are not reliable and sometimes the chit transaction fails for want of sound and honest conductors. A regulation is in force in Travancore that the chit conductor is to execute a security on immovable properties for a year's prize amount and further subscribers cannot recover any sum due under the chit after a year of its due date. If such provision is passed by the legislature, 30 per cent of the suits pending in the courts will disappear and people will have a safe and sure means of increasing their earnings.

The other subject I should like to deal with is the desire of people to invest in golden ornaments. It may be ascribed to the want of literacy among the people. But it seems to me that the real reason is the want of a safe and reliable investment. Money spent on it is dead, carries no interest and sometimes its face value varies. The postal cash certificates do not attract their notice because of the very many formalities that have to be undergone and of the poor rate of interest.

**Written evidence of M.R.By. V. SRINIVASACHARIAR Avargal,
B.A., B.L., President, the South Arcot Co-operative Central
Bank, Limited, Cuddalore, New Town.**

1.—Agricultural credit and credit facilities for small industries.

1. (a) Most of the agriculturists who are already members of co-operative societies obtain finance through the societies and in other cases they resort to local money-lenders and petty traders.

(b) Both from co-operative societies and from Government in the shape of agricultural loans.

(c) Do. do. For ceremonial expenses, for payment of kists and such urgent expenses, the agriculturists generally go to sowers and petty traders.

Lending rates of interest charged by the Co-operative Central Bank in this district:—

1. On loans issued to societies on the security of standing crops and on loans repayable in ten months—7 per cent.

2. In other cases of loans made repayable from eleven months to seven years—7½ per cent.

The Central Banks are satisfied with obtaining registered pro-notes from the panchayat of societies and the societies in their turn obtain surety bonds or mortgage bonds from the members. The former are not generally registered while the latter are invariably registered. In the case of mortgage loans, the societies invariably see that the loans advanced do not go beyond 50 per cent of the market value of the properties.

The amount of capital required for the various purposes stated above for this district may be Rs. 5,00,00,000.

It is an admitted fact that the agriculturists may be best financed through co-operative societies and each village may be provided with a co-operative society and all willing agriculturists admitted as members. Cash credit facilities must be provided for to all societies, earmarked for short term loans not exceeding the limits marked in the by-laws and such facilities for early disbursement of such loans to societies must be given by Central Banks. The societies in their stead must give cash credit accommodation to individual members to meet their short-term needs. To make the members of societies loyal to societies is to give them facilities of credit as and when they are in a necessity. Such kinds of cash credit accommodation should be given only for the short-term needs of members, e.g., (1) to meet household expenses; (2) to meet the expenses of cultivation such as purchase of seed, implements of husbandry, etc.; and (3) to conduct petty trades. The cash credit must be closed and renewed at the end of every harvest.

In addition to the said cash credit accommodation, members should be given facilities of borrowing on the pledge of standing crops and on the pledge of produce. These loans should be given preference to long-term loans.

Many of the agriculturists are really suffering for want of sufficient and quick financial help in times of need. The only remedy is for the Central Financing Co-operative Institution to have money near the door of the agriculturist. This can best be done by having their agencies in all taluk centres where there are sub-treasuries, places where there are Urban Banks and also in places which are Union centres. These agencies must be under the full control of the Executive of the Central Financing Institution and invested with powers of effecting collections and disbursements of loans.

So far, I have been dealing with the requirements of short-term credit to the agriculturist. His needs do not stop with this. He has to be freed from the clutches of the usurious money-lenders. As a matter of fact even

after the introduction of the co-operative movement, the agriculturist has not cared to be freed from private money-lenders. He will require money to build houses, to purchase or improve his land, to purchase cattle, etc. Money lent to the agriculturist for such purposes cannot be repaid by him in a short period. It has to be recovered from him little by little, year after year, from his annual income. To cater to his needs financing institutions of the present system of joint stock banks, co-operative banks, etc., will not suffice. Special banks, preferably, co-operative banks, giving facilities for repayments of loans in twenty to thirty years on the model of land mortgage banks, must be organized and started.

It may not be necessary to lay any more stress upon the necessity of encouraging co-operative institutions which are managed by the people for the people. Government must come forward to help them with finance and all their surplus funds now invested in foreign banks such as 'The Imperial Bank of India' free of interest must be diverted to co-operative banks. When co-operative banks are equipped with such funds in each and every district, the agriculturists in each district area may be supplied with all the funds necessary at much reduced rates of interest. The foreign banks, in spite of the Government's money free of interest, do not like to lend at low rates of interest being avaricious to earn a decent profit. The principles of the co-operative banks are diametrically opposite. In short, the diversion of the surplus funds of the Government into the co-operative movement will surely be conducive to the economic uplift of the suffering millions.

2. The present method of marketing principal crops, such as groundnut and paddy, are mostly in the hands of foreigners through foreign banks. The ryots in the district are advanced petty sums of money in times of need before the crops are harvested and are bound to sell all the crops only to the lenders at a certain price fixed at the time of the first advance itself. In certain cases the prices are fixed as per market rate. The crops are sold and the advances made are deducted with the interest due, the godown rent due, the conveyance charges, etc., and the balance, if any, due is paid to the ryots. The foreigners are helped by many middlemen. By such a method of marketing, especially, of the commercial crops mentioned above, the ryots are impoverished and the foreigners are enriched.

To remedy this state of affairs forming of pools by co-operative effort is the only way.

The by-laws of co-operative societies must be amended suitably to allow small advances being made to the ryot throughout the year as and when he wants, of course, paying due regard to his income, and the members must be made to lodge the produce in the society. The society in its turn must send the produce thus collected to a central depot managed by the societies themselves. These central depots may be located preferably in each co-operative union centre. These central depots may be equipped with sufficient godowns, well-protected and well-manned. They must also be the central places for the conversion of raw products into finished ones. Machinery, such as decorticators, oil-crushers, etc., must be supplied to them. These central institutions must be linked with the district financing banks and must be accommodated with overdrafts up to 50 per cent of the value of crops they are able to gather.

There must be wholesale societies also at the district headquarters which must take up all the surplus finished products of the central societies and find sales either in a foreign market or in the Presidency. The profits gained by these institutions will be distributed only among themselves and the rich will go to the poor instead of the poor, as it now obtains, going to the rich and being at his mercy. The poor will dictate terms to the rich and their position will be much improved.

For the present, attempts are being made for such pooling by co-operative effect and they have all been almost a failure, mainly for want of facilities of finance and competition of foreigners. Restrictions on foreign competition must be imposed and facilities of finance must be provided for as stated above.

Internal trade is mostly carried on by legal tenders. The part played by negotiable instruments, such as, cheques, hundis and bills, are very rare. These instruments of credit will be of much use, if the central societies are allowed overdraft accommodations and are allowed to be operated upon by

cheques. The Central Financing Institutions must be allowed to issue their own notes and must be declared by Government as legal tenders soon after they are issued by the financing banks of the district. The Negotiable Instruments Act, as it now is, needs no amendment for the present.

Hundis are very rare in this district. District co-operative bank cheques and the cheques of the Imperial Bank of India, the Indian Bank and the National Bank of India are much in vogue, and they are cashed at the banks upon which they are drawn by the mufassal banks for a nominal discount of 4 annas per cent.

Instruments of ownership of goods and produce (e.g., railway receipts) are not generally employed for raising money. The produces themselves are pledged as securities for raising money during the process of marketing.

It is not advisable generally to advance money on the security of railway receipts, etc., as the expected articles are liable to be damaged in transit.

I have no knowledge of the licensed warehouse system obtaining in the United States of America.

3. The value of land per acre in this district is as follows:

(1) Dry lands on which casuarina alone is raised is about Rs. 30 to Rs. 40 per acre. On lands fit for groundnut cultivation, the price will range from Rs. 300 to Rs. 1,000 per acre, the value being dependent upon the possibility of having good and certain supply under wells that would give water through oil-engines.

(2) Garden lands Rs. 100 to Rs. 500 per acre.

(3) Wet lands Rs. 500 to Rs. 1,000 per acre.

(a) and (b) The value of land in Government auction and that in the event of sale by court decree are much reduced as ready money is demanded and as sufficient proclamation of sale is not generally made and in the case of court sale there is no guarantee of title. Influences of persons affected by the sale are also factors, to a certain extent, affecting the value of land.

(c) Value of land by private negotiation is almost steady as noted in paragraph 1. This is much due to the accommodations given by the vendor to the vendee. In most cases the vendor will be indebted to the vendee and, the former being not in a position to pay back his debts, the latter will dispose of his lands. Secondly, the vendee's land may be adjoining to that of the vendor who may like to purchase the land for its worth.

4. There is not much legal impediment to mortgage of land and agricultural holdings except in zamindari areas.

There are a few land mortgage banks but they are not working well for want of credit facilities. There are agricultural banks called agricultural credit co-operative societies which have provision for long-term credit for the present.

These societies admit as members the agriculturists of village, enquire into their assets and liabilities and ascertain their wants. These societies apply for loans not exceeding one-eighth of the net assets of the members, to the district central financing co-operative institutions intended for the purpose and get the loans by executing a pro-note and disburse the money themselves. These financing institutions in their turn raise money by inviting local deposits at low rates of interest and also by borrowing from the Imperial Bank of India and the Apex Co-operative Bank at Madras.

The present central co-operative financing institutions and the apex institution, as they are now constituted, will not suffice to deal with long-term credit to the advantage of the landholders and tenants nor is it possible for the institutions to undertake the business to their full satisfaction. Land mortgage banks at least in each and every taluk centre with a central bank at the Presidency centre to finance them must be organized. These banks must raise money by debentures and advance sums to ryots at rates not exceeding 6 per cent. The periods of repayments of sums advanced should not be less than twenty to thirty years. The individual borrowing power should not exceed Rs. 5,000. The co-operators of the province have already put forth a scheme and it should immediately be given effect to.

(a) The existing system of the record of rights and title of ownership is defective.

Pattas themselves do not indicate ownership. The system prevailing in the French territories, if adopted, will reduce litigation to a large extent and the ownership of the property will be beyond doubt.

(b) In the event of non-payment, the mortgage bank must be supported by law to realize its dues through a simplified process, i.e., by giving power to the bank which lends money, to bring the properties to sale themselves without going to court and spending a lot of money there. The officials of the Co-operative Department not below the rank of a Deputy Registrar may also be empowered to order foreclosure and direct sale, instead of the present dilatory process through the Revenue Department.

(c) There must be a wholesale exemption from all costs to redeem the burden on the constituent of the bank in respect of charges incurred on account of defaulters.

The working capital of the proposed mortgage bank should be derived from all the three ways.

The debenture bonds should carry Government guarantee both for principal and interest to create confidence in the public.

The Government should have a seat and a voice in the executive of the bank.

Deposits, funds from central institutions or debenture bonds should not be raised for more than 4 to 5 per cent rate of interest. The lending rate should not exceed 6½ per cent.

5. The existing indebtedness of the agricultural classes in villages where there are co-operative societies can best be ascertained with reasonable accuracy through those societies to whom must be given the help of the village officers. In places where there are no co-operative societies, the information furnished by the village officers countersigned by some of the leading village ryots may be relied upon. In the latter case, the village officers must be asked to furnish figures in the property statement forms generally used by co-operative societies to ascertain the existing indebtedness of its members. The distinctions as required in items (a), (b) and (c) and (a) to (i) in the questionnaire may be embodied in the statement referred to above.

The form suggested will satisfy the needs completely with a slight modification.

Of course, a large number of people who are efficient farmers are being turned into tenants owing to enforcement of old debts and the lands mortgaged pass on into the hands of creditors.

Naturally the peasant will look after his own land more efficiently and in a better manner than he will look after it, if he is only a tenant. The passing of ownership takes away along with it the actual cultivator's incentive to produce more.

6. Rice-milling, dairy-farming, garden produce and handspinning are some of the small industries allied to agriculture.

The rice-mills driven by machines must be discouraged as they destroy the vitamin quite essential for the building of the body. Rice-milling by hand will be economical and will give employment to many people.

Dairy-farming and garden produce will be resorted to by many if arrangements are made to give facilities for sale at a nearer market for cash such as a co-operative sale society.

Handspinning is one of the ancient industries which needs only revival. There must be sufficient and willing State support. Heavy duty must be imposed on machine-made cloths and handspun clothes must be free of duty.

If the suggestions given above are carried out, surely the producer will get a better return for his produce.

The abovesaid four items are enterprises which may give employments to the farmer during non-cultivation seasons to supplement his income and raise his standard of living.

Co-operative societies are the only best medium to secure the working capital for such enterprises.

6. (a) Handloom is an industry carried on in some places in this district where people belonging to the Sengunthar and weaving class live. They get yarn from petty merchants who get a stock from bigger places, weave them into cloths and earn their wages. Fishing is the main source of income in villages situated near the sea or back-waters. Sometimes and practically in some seasons of the year they get a large number of fishes which are dried and exported to other places. This trade brings in a large profit to the people. In some cases there are dealers in Madras who make a decent income.

7. The Imperial Bank of India allows overdrafts to co-operative banks and helps also the latter in the collection of bills, cheques, etc., presented by them. Other joint stock banks are also helping the co-operative banks in the collection of cheques, bills, etc.

There is enough finance available to meet the short-term needs of co-operative societies but to meet the long-term needs the present finance will not suffice.

For satisfactorily financing the co-operative movement in the district and bringing every villager into the movement the estimated extra capital required is Rs. 4 millions.

As joint stock banks are rare in this district, the competition is not felt.

Financial concessions by extension of special exemptions to genuine co-operative societies, etc., to stimulate the growth of the co-operative movement are quite necessary.

II.—Indigenous banking.

So far as this district is concerned there are very few indigenous banks. Some Nattukkottai Chettis were carrying on banking business. And they used to receive deposits from private individuals at about 12 to 13 annas per cent per mensem and lend the said moneys so procured as also other borrowed capital to private individuals charging them not less than 15 per cent, sometimes the rate going up to 30 per cent. After the establishment of the central and urban banks in this district, the indigenous banks in the district have ceased to exist. Barring this, I have not got much information about indigenous banking.

III.—Investment habit and attraction of capital.

1. About Rs. 2 millions are the existing banking resources in this district. I am not much aware of the resources of the Province. About one-tenth of this is found as surplus for the present.

The Imperial Bank of India, the District Central Bank, the Urban Co-operative Banks throughout the district and other co-operative societies in the villages and the mutual benefit fund are giving full facilities for the investment of the savings of the public.

Generally the villagers are so poor that they find it difficult even to make their two ends meet and consequently they find it difficult to save. Already facilities to save have been afforded through co-operative societies to lodge the savings of the villagers, but yet the investment habit is not yet cultivated. So far as villagers are concerned, the little they are able to save they invest in the purchase of small bits of lands.

There is a tendency among the people of India to invest in silver and gold and this is also one of the causes for the paucity of savings of villagers. This habit of making silver vessels and gold jewels on an enormous scale is one of the many causes for the poverty of this district.

2. Postal cash certificates are not much popular in the district. To increase their popularity it requires much advertisement. Most of the people are ignorant of the rules regarding the same. The stringent rules in the case of deceased depositors must be relaxed to a certain extent. The post office must be satisfied with the certificate of heirship given by a village * magistrate or a Sub-Magistrate.

The rates of interest offered must be a little higher than what they are now, say 4 to 5 per cent.

Yes. The savings banks give all possible facilities to the public.

Only the Government officers and the middle class people resort to such forms of investment. The rate of interest offered must be raised a little, say, up to 4½ per cent and there must not be much restrictions on withdrawals.

The competition is not felt by banking institutions.

3. Facilities for purchase and sale of Government securities through co-operative banks direct must be given.

Generally, people residing in towns do not keep much money in their hands but invest them in banks. The habits of people in villages are quite different. They usually lend them to their fellow villagers at a reasonable rate of interest on a pro-note or on a registered mortgage bond or prefer investment in silver or gold ornaments. It is only a very few who get surplus money by sale of produce or through any other cause. As already indicated the villagers are generally poor. They are paying about a third of their income to Government as kist, keep a third for their daily livelihood and pay the balance to the creditors. The exceptional few, who are in a position to put by something every year, invest the same in the purchase of small bits of land.

4. The cheque habit is only in vogue in the district centre where there are many educated people. It is, I have to say, yet in the infant stage.

The abolition of stamp duty on cheques has much contributed to the gradual growth of cheque habit.

Generally the English-knowing people use cheques. Co-operative societies in the mufassal are allowed free use of cheques for effecting transfer of money to the district centre and co-operative bank employees are already paid by cheques on district co-operative banks, which they present at any mufassal bank affiliated to and having transactions with the district bank and get cash. Similarly payment of Government servants by cheques may promote the cheque habit.

5. Yes. Banking and investment habit in India is of very slow growth.

It is mainly due to want of confidence of the people in foreign banks. It is only after the advent of the co-operative movement that the investment habit of the people is appreciably seen. This will be still more appreciable if the foreign banks also are Indianised.

No propaganda of Government will be of any avail with regard to inducing the people in the country to invest their savings in productive undertakings of Government as there is not enough saving power in the people.

The branches of the Imperial Bank of India, but for the strong support the Government will be a failure. It is not possible for the bank to tap the local resources because of its apparent low rate of interest.

**Written evidence of M.Ry. E. M. KRISHNASWAMI Avargal,
Municipal Councillor, Karur.**

II.—Indigenous banking.

To begin with, there are five indigenous banks in this town: (1) The Co-operative Bank, (2) the Coimbatore Bank, (3) the Laxmi Vilas Bank, (4) the Vysiah Bank and (5) the Agricultural Bank of India, Limited, Madras. Besides these there are several private banks of Nattukkottai Chettia.

(1) The Laxmi Vilas Bank, (2) the Vysiah Bank and (3) the Coimbatore Bank, these three banks are lending money on jewels and mercantile stocks. So these are greatly helpful to traders only. The interest is also moderate.

The co-operative bank grants loans on movable and immovable properties only to the share-holders. In a way it is helpful to merchants and agriculturists. To approach them for loans is difficult. They have to satisfy several directors whose whims and fancies in all matters it is often very difficult to satisfy. So most of the agriculturists cannot benefit by the same.

There is a joint stock company called the Agricultural Bank of India, Limited, newly started and its staff is collecting shares and personal investment bonds and livestock registration shares. Their scheme seems to be good, but how far it will be successful in these parts is yet to be seen. They have not yet begun to grant loans and there is a big rumour that their staff has not been paid for the three months that have now elapsed since its beginning. Such joint stock companies should not be encouraged.

There is also another bank of this type called the National Livestock Registration Bank. It deals only in chit system and has appointed village secretaries who collected money on livestock in the village parts and now it has discontinued that system without compensating anything for their livestock registration holders. On this consideration the people begin to lose their faith in this joint stock company system. Such joint stock companies are a regular curse to the innocent illiterate agriculturists, as they are not conducted properly.

The postal savings bank is not very popular in this town. It requires some modification so as to be accessible to every poor man that desires to invest his savings.

The private banks of the Nattukottai Chettia are very accessible to the people though they levy exorbitant interest at times. These Nattukkottai Chettis have completely understood the people and boldly lend loans to their customers.

So I can conclude that all these banks make no efforts to help the cultivators. The Government would do well to establish a branch of the Imperial Bank of India here to work on the line that seems best to the Banking Enquiry Committee to help the poor ryots. It will surely work better than these indigenous banks, joint stock companies and usurious Nattukottai Chetti's banks. Or, if the private banks are to be encouraged at all, the Government should have direct supervision over them once a month at least.

Written evidence of the Chingleput District Co-operative Federation, Conjeeveram.

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturists obtain finance for expenses of cultivation, for payment of land revenue and for capital and permanent improvements either from the village co-operative society if there is one in the locality, catering to their needs or, in the absence of a society, from money-lenders. For capital and permanent improvements the Government agricultural loan is also availed of.

The co-operative society generally advances two kinds of loans, one short-term repayable within a year and the other long-term which extends over five years. In both the cases the rate of interest charged is the same, viz., a uniform rate of 9½ per cent. The surety offered and accepted is either suretyship on the personal responsibility of two or more members or on mortgage of immovable property. Advances on standing crops have not become common. They are few and far between. The money-lenders advance loans either on pro-notes or on suretyship according to the solvency of the clients or on mortgages. The loans are payable on demand in the case of pro-notes and in a lump sum at the end of a specified term of years in the case of mortgage loans. The interest varies from 12 to 18 per cent.

The loans advanced by Government are spread over a number of years on equal payments and collected along with the land revenue from the agriculturists every year. Government offer finance only to this extent for agriculture. The Imperial Bank of India has nothing to do with agricultural finance and does not seem to offer financial aid to agriculturists in their operations anywhere. If, however, the overdraft allowed to co-operative central banks in various districts and also to the Provincial bank which in their turn advance loans to rural societies having agriculturists as members can be brought under the agricultural finance by the Imperial Bank, then it may be conceded that this bank is having its share in agricultural finance, though one would think that this is not adequate and in proportion to their needs.

The joint stock banks do not play any part in agricultural finance. As stated above, co-operative banks have got everything to do with agriculture and in fact they are established to render all kinds of help to the agriculturists through co-operative societies in rural parts which look up entirely to the former for their finance.

The indigenous bankers and banks are resorted to, only at times, by well-to-do landowners and these cannot be said to play any important part in agriculture. Where there are no co-operative societies money-lenders offer financial aid to the agriculturists but not on a large scale.

Companies dealing in fertilizers are few and far between and do not render any help except that they sell goods for cash. Money required by the agriculturists for their needs in all their operations should be made available only through co-operative societies or in other words the agriculturists should not stand indebted to any one else except to the local co-operative society. To this extent the societies should be strengthened and ample funds placed at their disposal to enable them in their turn to be the only financiers of the agriculturists. The indebtedness of the agriculturist should be taken over by the rural society by advancing long-term loans to him to discharge his outside prior debts and thus transfer all his indebtedness to itself. Only this method will eventually confer the benefit sought after by the poor and the indebted. Until this is done, the societies cannot be said to have done anything to alleviate the miseries of the poor agriculturists. The agriculturists should be reclaimed and should not be allowed to approach the money-lenders. Under the existing system there are more agencies than one for the farmer to borrow and the entire finance should be left to the village co-operative society to issue long-term loans which only would redeem the ryots from their debts.

There does not seem to be co-ordination among the various credit agencies including the Government.

2. The present method, by which the principal crop of the district is marketed, is the direct sale effected by the producer to the buyer through intermediaries. Each and every one sells his produce to the outside buyer who purchases the produce soon after the harvest. Besides, the farmers are also compelled to part with their produce when the market and price are unfavourable to them as they are pressed hard by their creditors and have to pay kist which follows the harvest close on its heels. Thus the producer gains very little advantage or benefit if not loss. This can be avoided and the farmer enabled to sell his produce to his best advantage if the entire produce in a particular locality could be pooled at a central place and arrangements made for their sale to wholesale buyers in a lump through any agency which would undertake this business. For this business no other agency is better fitted than the local co-operative society which can easily handle this arrangement. Also, if the agriculturists could be enabled to hold their produce till the market is favourable to them, they would be immensely benefited. For this purpose the ryots should be given advances for the payment of kists and other sundry debts incurred by them in raising the crops and this could be done by no less an agency than the local co-operative society which could make advances on the pledge of produce secured at its godowns and afterwards adjust the same after the sales are effected. If this system could be introduced the farmers would derive immense benefits. The local co-operative society should have godowns for the purpose and take over the produce of its members wherever necessary for payment of sundry debts. Loans may be advanced on the produce lodged with the society to be recouped after sale. The produce pooled like this can be sold wholesale by the co-operative society on behalf of its members to their best advantage. This will certainly minimise the trouble of the agriculturists individually and will offer them all the advantages such as the best obtainable prices by joint sale effected through an agent. During the marketing of the produce the producers require advances for their urgent needs and these should be given by the co-operative society. At present there are no such facilities but the societies should be enabled to undertake this business and for this purpose they should be given all credit facilities.

There are wholesale buyers of products who arrange purchases through intermediaries called commission agents and in some cases instead of cash payments they arrange with banks where there are such facilities for payment of value thereof to the seller. Sometimes arrangements are also made for payment of value at the place where they may be enrailed on handing over the railway receipt to the bank which have instructions to get the railway receipt after payment of cost. Sometimes at the destination joint stock banks are engaged to collect the value of produce. This is generally done by the banks on behalf of sellers by handing over the railway receipt covering the consignment to the buyer on payment of the value at the instructions of the seller.

For internal remittances there are ample facilities such as the usage of R.T.R. through Government treasuries, by co-operative banks, direct remittances by money order, insured post, the using of cheques, bills, hundis, etc., which are employed for collection and adjustment of dues. In internal trade for collection and payment of money, bills and hundis are issued and these come within the purview of the negotiable instruments. With reduction of stamp duty on bills and hundis, probably the use of hundis will become more common and popular. Hundis are used only in big commercial centres where there are indigenous bankers for joint stock banks and they are discounted only in these places by the above banks.

As already stated at times railway receipts are employed for raising money during the process of marketing by arrangements with buyers who sometimes arrange payments of value of the produce enrailed on presentation of the railway receipt to the bank.

3. The value of land per acre for different kinds of crops varies from village to village according to the nature of crops raised, dry or wet cultivation, single or double crops, irrigation facilities, etc., and so it is not possible to fix the value at a certain figure.

The value of land in purchase by private negotiation will be higher than in the event of sale by court decree or in Government auction for non-payment of land revenue.

4. There does not seem to be any impediment to mortgage of land and agricultural holdings. There are about 20 land mortgage banks in some of the important centres to provide long-term loans to the agriculturists.

They raise their capital through their shares and issue debentures which are taken up by the public as well as by the Government.

These institutions are of recent origin and it remains to be seen how far they are able to tackle the problem of rural indebtedness effectively. Experience has to be gained before further suggestions could be offered.

(a) None.

(b) There are already some concessions granted to the co-operative societies by Government.

(c) There are no costs.

Funds for the mortgage banks should be derived largely from central institutions for long periods as well as by the issue of debentures.

To infuse confidence in the minds of the public the debentures should carry guarantee of some kind by Government. It may be for interest for some time.

Government in this case is not likely to incur loss and as such no steps are necessary to safeguard the Government against unnecessary loss.

Agricultural mortgage banks should raise money by issue of debentures repayable, say, after 20 or 25 years. The rate of interest payable on the debentures should not exceed 6 per cent and the issue of long-term loans out of the amount thus raised should not carry interest beyond 7½ per cent. The margin thus obtained will be sufficient for its management. These banks should, in turn, issue loans to borrowing members for periods ranging from 20 to 25 years according to the nature of the purpose for which it is borrowed and the repaying capacity of the borrower.

5. In order to devise measures for the increase of credit facilities to the agriculturists it is necessary to have an estimate of the existing indebtedness. So far accurate figures have not been available. It is not possible to state these figures at present. In order to obtain this estimate, rural co-operative societies may be asked to secure the figures which could be had with reasonable accuracy.

This should be distinguished from mortgage loans, i.e., loans raised by mortgage of immovable property such as lands and houses and loans raised by the pledge of movable property such as ornaments, implements, produce, etc.

(a) to (i). It is not possible to classify the debts according to the purposes enumerated in the question in the absence of figures. The creditors are the co-operative societies only to a small extent, but the majority are the indigenous bankers and professional money-lenders. The co-operative society charges a uniform rate of 9½ per cent interest which is generally collected once in six months and the principal is received in parts according to the convenience of the borrower but within the stipulated time. The other agencies charge from 12 to 18 per cent and insist on annual payment of interest and principal in a lump sum at the end of the specified term of years.

Yes. Through the process of the enforcement of the old debts many farmers are turned into tenants and the landed property passes into the hands of the creditors.

It is bound to take away the incentive from the cultivator to produce more and in an efficient manner.

6. At present there are no subsidiary industries allied or supplemental to agriculture.

During the off season when the agriculturist is idle and free from cultivation which is for a certain period in the year he may be given facilities to keep up cottage industries to supplement the income. This may be done by providing him with necessary credit facilities and supplying him with raw produce which, when turned into finished products, should be arranged to be sold to his best advantage. Regarding the disposal of the produce this is dealt with in detail elsewhere.

To supplement the farmer's income when he is not engaged in the agricultural operations he may be asked to take up weaving, as next to food comes clothing in which crores of the country's money are sent out to foreign countries. The working capital for this should be provided by making advances to him which should be done by co-operative societies or the societies should arrange to provide him with the wherewithal, such as yarn, etc. Again, in marketing the finished produce, the co-operative society should undertake the sale of this, as his agent, in a suitable market to his best advantage. The central banks should issue short-term loans to the societies for this purpose to be utilized in the disbursement of small loans to the villagers for the encouragement of this industry.

6 (a) Hand-loom and weaving can be encouraged as there are facilities for developing this industry. Cotton is available which may be turned into clothing and on account of its importance next to food this should be stimulated.

7. The Imperial Bank of India has allowed overdrafts to the Provincial and central banks in the co-operative movement and these are utilized by the latter to issue short-term loans and also to provide the necessary fluid resource required by the statute. Beyond this relationship between the Imperial Bank and the central banks there is nothing else. As regards other joint stock banks and indigenous banks they have nothing to do with the co-operative banks.

I should think plenty of money is available in the movement for short-term loans, but it is only the long term credit which is necessary for the redemption of the agriculturists. At present long-term loans are not available as the financing banks depend upon deposits only for their finance which is for short periods. Money should be brought into the movement for longer terms, which is possible only through the issue of debentures.

It is not possible to give an estimate of the extra capital required.

There is no competition between the joint stock banks and the co-operative banks.

Regarding concessions to stimulate the growth of the co-operative movement there is already the exemption from income-tax to the co-operative societies. But it is necessary to include debentures issued by the Provincial and the land mortgage co-operative banks in the list of trust securities.

II.—Indigenous banking.

1. The indigenous banks or bankers are found generally in the urban area and commercial centres transacting the banking business which consists in advancing loans to merchants and traders on pro-notes according to their financial standing and business integrity. Sometimes loans are advanced on pro-notes executed by more persons than one on the basis of joint and several responsibility.

They advance loans against hundis of merchants generally repayable after 30, 45, 60 and 90 days after sight, collect bills or hundis drawn by merchants on their customers at other places towards value of goods supplied by them, discount such bills of drawers, allow overdrafts to approved and tried customers, and advance loans against goods secured in their godowns, etc.

2. Inasmuch as such bankers exist only in urban areas which are also commercial centres, they do not generally finance agricultural operations which are confined to rural areas except in very few cases where well-to-do landowners approach these bankers and get the necessary accommodation they may require for the purposes of agriculture. These banks are not known to finance even industries of whatever nature they might be except it be that they are helpful only to merchants who carry on their trade on a wholesale basis in the manner enumerated above.

The chief source of getting money for these is the bigger joint stock banks or particularly the Imperial Bank of India. Besides this, they cannot boast of any invested capital and the extent and volume of their business depend upon the trading and commercial activities of the place where they are situated. These could not be assessed as no figures are

available with regard to the working of these banks excepting the fact that most of these banks depend on the Imperial Bank of India for their finance and to that extent they have business relations with that bank and these may be said to be separate entities carrying on their work in their respective sphere having no link with each other. Where there may be bills or hundis to be collected on account of trade activities it may be necessary for one indigenous bank to undertake the collection of the same on behalf of another and to this extent they may have relations with each other. Besides this, the indigenous banks do not seem to have anything to do with other joint stock banks or co-operative banks.

4. The various forms of credit instruments used by these indigenous banks are the hundis which are generally drawn by suppliers of goods on those who owe value for goods supplied to them at a certain number of days after date. These are discounted by these banks and money is made available. There are also hundis executed for getting credit accommodation just like pro-notes, which are common in character, and receipts issued by them for deposits received by them.

Sample form of hundis.

At.....days after date $\frac{\text{with}}{\text{without}}$ grace days, please
 payor order the sum of Rs. for value received in cash.
 for value of goods supplied
 Date. Drawer.

Sample form of pro-note.

At.....days after date $\frac{1}{\text{---}}$ promise to pay. the sum of
 Rs.in words.....for value received in cash.
 Date. Signature.

5. Loans are generally granted by these banks to approved customers, landholders, merchants and traders, on pro-notes, mortgages and also on goods pledged with them and secured in their godowns. Similarly, to tried customers who are mostly traders, they grant cash credit. These are generally short-term loans nowhere extending beyond 90 days.

As stated above, these banks have no share capital or other substantial investments made with them except that they look forward to other bigger banks such as the Imperial Bank of India for accommodation. The rates of interest allowed by them generally vary from 6 to 6½ per cent.

6. The indigenous banks generally charge from 10 to 18 per cent on all loans and advances.

These banks could be made more useful to the public by organizing them better and by co-ordinating their activities instead of leaving them to function with limited resources in exclusive spheres. It is a known fact that the Imperial Bank of India has immense funds at its disposal from Government free of interest and these funds are not utilized at all to help the Indian trade because most of the management, if not the entire, rests with those who are alien in character and who have not got the welfare of the Indians at heart. Besides this, the branches which are opened in important centres are manned by those who have no independent outlook or freedom of action and their hands are tied. Everything is being dictated from the head office who have no knowledge of the local needs and conditions and the agents in charge of the branches are also men having either no knowledge of the local conditions or have no freedom to carry on their business as exigencies demand. The result of this is the funds at the disposal of the Imperial Bank are not made available for the development of the agriculture, trade or commerce either direct or through the branches opened by them. The branches do not seem to do any useful work and in this respect they are one with their head office. Instead of these, the local indigenous banks which possess a good knowledge of the local conditions and needs should be recognised by the Imperial Bank as their agents and these banks should be asked to carry on their banking activities on behalf of the Imperial Bank which should supply them with necessary funds. In order to ensure safety, these indigenous banks should be required to give a guarantee of some amount for the business they do for the bank. These bankers will certainly be able to do more useful and substantial work.

These may be started in important centres of agriculture and trade. Through this agency system, the Imperial Bank will be able to do more useful work in the development of Indian trade, as such agents will always bring their knowledge of local conditions and experience to bear on their work. These agents may also be asked to collect bills and hundis, etc., and advance loans on goods secured in godowns. In this way the rates could be made uniform and brought down so as to benefit the agricultural community by enabling them to spend more on agricultural improvements and also to benefit the traders. There will also be economical management.

7. There is not much prejudice against such indigenous bankers who are of course carrying on banking work systematically. They also conduct their business on sound lines as they have a thorough knowledge of their clients.

8. This has been dealt with under paragraph 6 supra.

9. After meeting the expenditure in running these banks and providing for other unforeseen events these bankers are able to earn substantial returns which may roughly be put down at 12 to 15 per cent.

10. These bankers are generally able to meet their demands and if there should be refusal it should be on account of insufficient security offered by the clients. They do not suffer for want of capital.

11. These indigenous bankers may be made agents of the central state bank in important places and localities. Besides, branches of the central state bank should also be opened in each district with directors, living in and round the locality, who have a thorough knowledge of the local needs and conditions. The indigenous bankers should be linked with such district banks. The branches with a directorate consisting of the local influential men coupled with local knowledge and experience of the indigenous bankers would command good confidence and be useful. By linking the indigenous bankers with the central state bank as its agents the competition between them will be eliminated.

12. It cannot be said with certainty that there is a large surplus in the hands of the indigenous bankers, which does not find employment throughout the year.

III.—Investment habit and attraction of capital.

1. There are joint stock banks, exchange banks, the Imperial Bank of India and also a net-work of co-operative banks for each district at its headquarters as well as town banks at taluk headquarters and nidhis and benefit funds.

For encouraging savings and investments there are the above banks and also the postal savings bank.

There is no necessity for improving the existing facilities in the interior inasmuch as there are co-operative banks and societies scattered all over which are prepared to encourage savings by accepting deposits of various kinds suited to almost all kinds of people.

2. The postal cash certificates can be said to be popular and no steps are necessary to popularize them still further or to revise the existing terms of their issue and interest.

The postal savings bank affords all facilities to the public and generally it is popular with the lower middle class people who are not conversant with other existing banking facilities. Probably these may be made more popular with other classes of people, if the rate of interest is raised and restrictions are enforced on investments and the withdrawals of funds are modified so as to admit larger amounts being invested therein and withdrawal also being made more easy.

3. With regard to the purchase of Government securities there are ample facilities afforded by Government to many joint stock banks, and the Imperial Bank of India. No special facilities are necessary for small agriculturists and small investors of the country to take up Government securities as it is doubtful whether they have the wherewithal to go in for such investments.

Besides Government securities there are also municipal and port trust debentures which are bought by some of the banks.

It is doubtful whether there is any surplus in the hands of groups of people for investment anywhere out of the sale proceeds of their produce, etc., after meeting the expenses and debts incurred by them for cultivation and the payment of kist, etc. When the question of farmers having surplus in their hands is doubtful, the question whether they lend to fellow agriculturists does not arise.

4. The use of the cheques is at present confined only to those places where there are joint-stock banks, exchange banks, the Imperial Bank or its branches. There are also cheques used, not on a very large scale, in places where there are co-operative central banks dealing with current accounts. It may be said that this is popular with the educated class who invest money in the banks in towns. Merchants and traders are beginning to use cheques freely in towns where there are banks. The effect of the abolition of the stamp duty has probably contributed to the growth of the cheque habit among merchants.

As stated already educated people with spare money invest in banks; officials and big traders use cheques.

5. Certainly the banking and investment habit in India is very slow on account of the conservative nature of the people and lack of sufficient knowledge to realize the importance and advantages of banking and investment.

As pointed out in some other place the result of the opening of new branches of the Imperial Bank of India has not been of use to any appreciable extent to the public as the men in charge of such branches are either ignorant of the local conditions and needs, or have not a free hand to develop business and afford facilities to the public. They have to look forward for instructions for each and every thing from the head office where the management rests in the hands of the non-Indians. Hence the large surplus lying absolutely free with this bank is not made available to the needy agriculturists, traders and artisans even through branches. I should say that the opening of branches has not been productive of any good result as one would expect out of such a move.

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1.—Agricultural credit and credit facilities for small industries.

1. (a) The agriculturist obtains finance from merchants, professional money-lenders and ordinary rich men.

The merchants advance loans on condition that the crops grown by the agriculturist should be sold to them wholesale as soon as they are harvested at a price 4 per cent less than its market value. If he fails to satisfy this condition, the merchant refuses further advances and enforces the payment of the loan through the Court.

The loans are advanced for a period of three months on the security mostly of the crops and landed property. They charge interest at the rate of 12 per cent per annum.

The agriculturist is a loser in two or three ways in respect of this transaction. In addition to the interest he pays he has to sell the commodities at a lesser price. It is but natural that one should have to wait for long for the rise in prices. Here he is forced to sell his commodity as soon as it is harvested and on the spot and is not allowed to wait so that he may have the benefit of it.

The professional money-lenders advance loan on condition that the interest is to be paid in kind and the principal in cash. The interest they charge in kind usually comes to 36 per cent per annum. And, if during any year or years there is failure of monsoon, he has to pay the then existing price of the quantity of the commodity he has to pay in kind in lieu of interest. In that case the interest ranges from 50 to 60 per cent.

This class of people generally own more money and less lands. They lease out their lands for small rent and live mostly upon the quantity of commodity they get for the advances given to the agriculturists.

In this case he pays an exorbitant rate of interest. Before actually getting the advance he never in the least considers whether he will be in a position to pay the interest at the stipulated rate and never cares for the consequences. In the end he suffers badly and is involved in unrepayable debts.

The ordinary rich men advance money on the security of lands and for no definite period at the rate of 12 to 15 per cent, interest being payable annually.

No doubt, no defect can be attributed to this transaction except for the fact that they are in most cases avaricious and bent upon coveting the best lands of their debtors. As a result they press the poor indebted people for the wholesale payment of the amount due from them at such a time when they will not be in a position to meet the demand. In the end the agriculturist is forced to sell them the coveted land for a cheaper price through private negotiations or through the court sales.

Although the co-operative societies were started with a view to help the poor agricultural classes, they do not help to a very large extent by way of financing them for expenses during cultivation.

(b) *For capital and permanent improvements.*—He gets financial help from the co-operative societies, from the Government under the Land Improvement Loans Act and from moneyed people.

The co-operative societies issue short and long-term loans for the sinking of wells and purchase of plough bulls on the security of lands at the rate of 10 per cent per annum, interest being payable half yearly and the principal annually. He is also charged penal interest for default.

Although the co-operative movement was started with the best of intentions—to help the industrialists and the agriculturists financially and to relieve them to a large extent from the worries of usurious money-lenders by allowing them easy part payment and cheap interest—they are not functioned properly. Most of the people are illiterate or semi-literate

and they do not make proper use of them. In several cases care is not bestowed at present on the investigation of title, valuation, inquiry into the description, identity and record of rights, relating to the lands taken as security for mortgage loans advanced by these societies. They are hopelessly mismanaged, in some cases *benami* loans are also granted, and in most cases hopeless adjustments are effected and payments are not proper. As a result suits are filed, decrees are passed and lands are brought to sale.

The Government issues *waragam* loans at 6½ per cent on the security of the lands for a long term, interest and a portion of the principal being payable annually. The loan is purely intended to help the agriculturist for sinking wells and purchasing plough bulls.

The cheap rate of interest and easy payment by annual instalments is really more helpful than that of banks, bankers and merchants, but it does not serve the immediate purpose. To get a loan the application has to pass and re-pass through many agencies before it gets the final sanction and it takes nearly a year or more to get the money. But for the complex procedure and delay, it no doubt helps the agriculturist to a great extent.

The moneyed people also advance loans at 12 to 15 per cent on the security of lands and for a long-term.

(c) For failure of monsoon, for land revenue, etc., the loans are advanced by professional money-lenders, co-operative societies and, especially for land revenue, by the merchants. The Imperial Bank of India never helps the agriculturist by way of finance for expenses during cultivation; the only person or persons actually benefited are the mercantile and the commercial classes.

The capital required for the various purposes mentioned may be calculated from the figures given below either for a whole district or Province.

(1) The amount of capital required for an acre of wet land—exclusive of water-supply and cost of manure—roughly comes to Rs. 25, and for dry lands Rs. 20 in this district.

(2) For capital and permanent improvements such as sinking wells for lift irrigation and purchase of plough bulls, etc., the amount comes to Rs. 75 per acre on an average.

(3) If the above conditions are satisfied, the agriculturist will have no necessity to bother himself either during years of failure of monsoon or for the payment of land revenue.

But in some cases where there are no facilities for water the capital required will be roughly Rs. 25 per acre.

Ninety per cent of the population of India are mainly living on agriculture and also they are very poor. To improve their status and efficiency they must have good yield from the lands which must suffice for the wants of necessity in addition to some saving. To produce sufficient returns there must exist proper irrigation facilities, liberal supply of manure and plough bulls and other implements necessary for cultivation.

The irrigation facilities are somewhat poor in this district. During years when there is failure of monsoon the farmer suffers badly from want of water-supply and the lands are left uncultivated. They are not in a position to sink wells owing to financial inability.

The companies trading in fertilizers are very few in these districts and the supply of the manure is either costly or the manure is not supplied on credit to the agriculturist.

The methods of cultivation have not been improved. In India the efforts hitherto made by the Government for the development of agriculture and industries have been mainly directed towards the establishment of a Department of Agriculture and towards the establishment of large agricultural colleges and demonstration farms and central research institutions, in places to which the rural agricultural population, for the most part illiterate and conservative, could hardly have any access.

Cattle mortality is becoming very severe and preventive measures are not sufficient in this district. Due to the establishment in this district of banks by usurious money-lenders from other Provinces even ordinary persons have begun to charge higher rates of interest.

Suggestions.—Irrigation facilities must be improved on a large scale. Wherever possible and necessary, water-supply from rivers, such as, Palar, can be effected by the introduction of irrigation channels, and there are various and numerous possibilities for the same.

Installation of pumping stations as in Lanka tracts are necessary and essential.

Agricultural demonstration farms must be established for every revenue firka, and mass education must be given on a liberal scale.

Import duty on agricultural implements must be considerably reduced. Substantial provision is essential for the construction and maintenance of good roads and easy communication facilities to the interior tracts.

Central agricultural credit societies are essential for every revenue firka and branches for every vattam. Each vattam is to send two members to the central societies and from the governing body and from among them they must select a panchayat of ten members with which an expert adviser on agriculture—agricultural demonstrator—should be associated. It is necessary to have strong and efficient firka organizations to stimulate the activities and place these societies on a more businesslike basis, for the formulation of policy and provision of expenditure and for financing the cultivation expenses. Loans must be issued at cheap rates of interest and on easy payment by instalments on the security of either the crops or the lands of the members. They should also be given facilities to advance loans on pledge of gold and silver bullion or articles and non-perishable trade commodities.

The judiciary should strictly observe the Usurious Loans Act and thereby put a check on the high rates of interest charged by the money-lenders and relieve the poor agriculturist.

2. The marketing of principal crops such as paddy, ragi and groundnut in this district is done by merchants. The agriculturist just before the harvest of crops gets advance from the merchants for the payment of land revenue and other minor expenses incident to the farmer and sells away the commodity to the merchant for a price which has already been settled at 4 per cent less than the market value. Big companies and firms like Shaw Wallace and Volkart Brothers, have got their agency in every district for the wholesale purchase of principal crops like groundnut, and they are run purely by foreign capital.

Central agricultural societies on the co-operative basis for every firka should be established at select important market centres, and every primary society in every urban and rural area should finance the cultivation expenses of its members and insist on its members selling their produce to the society, and the consumers' stores in these areas should explore the possibilities of mutual help between themselves in respect of their purchases and sales respectively.

Due to want of good roads to the interior tracts trade is not flourishing. So, maintenance of good roads is necessary for the removal of most of the defects prevailing in the marketing of principal crops.

In internal trade the agriculturist accepts only prompt cash payments for the commodities sold by him. A large amount of capital is not forthcoming in internal trade due to the conservative nature and spirit of the population.

In foreign trade ready cash payment is not necessary. Bills of exchange or cheques, etc., are accepted. There is mutual trust amongst the different classes of traders, which does not generally exist in internal trade. It is with the advent of foreign trade and foreign capitalists that a large amount of capital is largely flowing into this country.

Different classes of banks, bankers and merchants remit money through their agents for purposes of marketing principal crops in this district.

Hundi and bill systems are not prevalent in this district on a very large scale, and very few know what a hundi or a bill is.

3. The value of paddy-growing lands yielding two crops per year ranges from Rs. 1,000 to Rs. 1,500 per acre, and that of lands yielding one crop only ranges from Rs. 200 to Rs. 400 per acre. Lands possessing spring wells fit for lift irrigation and permanent irrigation facilities for paddy cultivation sell between Rs. 1,500 to Rs. 2,000 per acre.

The value of dry lands fit for ragi and groundnut cultivation ranges from Rs. 50 to Rs. 150 per acre, and these lands are generally rain-fed. Lands with wells for irrigation purposes cost from Rs. 100 to Rs. 200 per acre.

The difference in the prices of these lands is due to the difference in soil, cheapness of labour, easy communication facilities and nearness to market centres.

(a) In Government auction for non-payment of revenue an acre of paddy-growing lands is valued between Rs. 30 and Rs. 50 and dry lands at Rs. 5 to Rs. 10.

Lands that have been left uncultivated owing to the worthless soil and unfitness for good yield have been assigned by the Government to the needy depressed classes and soldiers disbanded after the great war as a sort of remuneration for the services they rendered in addition to payment of pensions, etc. The yield from these lands is barely sufficient to provide his or their family with at least a meal per day. Such being the case, they are not able to pay the land revenue regularly every year. In spite of best efforts through private negotiations either to raise loans or to sell them they could not succeed because of the inaccessibility of their situation to the ordinary farmers and the worthlessness of the soil and small yield. Hence the low estimate of the value of such lands during Government auction for non-payment of land revenue.

(b) In the event of sale by court decree the value of paddy-growing lands ranges from Rs. 100 to Rs. 300 per acre on an average.

In the event of court sale only the lands of the debtors who are unable to pay the debt to their creditors come to auction. The yield is not sufficient to help him by way of financing his necessary wants in addition to the wants of luxury. Most of the Indian population are encumbered from time immemorial with some social custom, feast or festivals, which naturally involve them in good lot of expenditure. On account of their vanity and show they are not able to cut short their expenditure which overleaps their income and naturally involves them in debts. The lands taken as security for the advance of loans by their creditors are generally not the worst. Hence the difference or higher price for such lands.

(c) The value of land in purchase by private negotiation ranges from Rs. 1,000 to Rs. 1,500 per acre.

In this case the lands that are offered for sale are the best or the next best and possess irrigation facilities, good soil and large yield. There is a good lot of competition in purchase by private negotiation. As a result they fetch the highest value.

4. There is no legal impediment to mortgage of land and agricultural holdings in this district.

Land mortgage banks have only been recently started and they are not accessible to the agriculturists since they are established only in large towns and lend money to persons who reside within a certain mile radius from the bank. There are no agricultural banks. Only the co-operative credit societies provide long-term credit to the agriculturist. The maximum borrowing power of the members of the bank should be not less than Rs. 5,000 and interest should be charged between 6 and 7½ per cent per annum. Branches should be established in rural areas to provide facilities for rendering financial help to the agriculturist, like the co-operative credit societies, on a liberal scale.

Suggestion of measures—Improvement in the record of rights and title of ownership, etc.—Village panchayats should be organized and must be empowered to maintain proper records with the help of the karnam. Only the residents of a particular locality or village are in the know of all the details in respect of each individual of the village and the properties comprised therein. The record of rights, etc., must be checked annually and improvements or alterations, if necessary, are to be made by the panchayat.

The working capital of a mortgage bank should be derived largely from funds from central institutions and to a small extent from deposits and debenture bonds.

5. An estimate of the existing indebtedness of the agricultural class can be had from the Registrar's offices, co-operative credit societies and to a little extent from ordinary people.

The estimate of the existing indebtedness of the agricultural classes of a particular specimen village comprising 400 acres of wet and 25 acres of dry lands, and having a population of 250 people and owned by 20 pangu pattadars and 30 non-pangu pattadars is as follows :—

						RS.
Pangu pattadars—						
Registered mortgage loans due to private individuals	...	...	...	...	...	4,000
Mortgage loans due to co-operative societies	...	...	...	...	...	7,000
Promissory notes	...	...	...	...	...	2,000
Pending in court sale	...	...	...	...	...	4,000
Total						17,000
Non-pangu pattadars—						
						RS.
Co-operative societies	...	...	...	...	...	500
Private money-lenders	...	...	...	...	...	500
Bonds	...	...	...	...	...	300
Total						1,300
Total indebtedness						18,300

95 per cent of the debts were incurred for the purposes mentioned in subdivisions a to e, and f to i form only 5 per cent of the whole indebtedness.

The rates of the interest charged range from 10 to 12 per cent per annum and compound interest is calculated when the interest is not paid every year regularly, and payment of debts is enforced either through courts or arbitration or private negotiation or sale of lands to the creditor.

Through the enforcement of old debts the landed property passes into the hands of the creditor. As a result, a large number of people who were efficient farmers are being turned into tenants for a period or tenants at will and it naturally takes away from the actual cultivator the incentive to produce more and in an efficient and better manner. He never evinces as much interest as he would in his own land.

6.—*Subsidiary industries allied to agriculture*—

Rice-milling.—Rice mills have been founded in busy towns and market centres and also in places where a number of roads meet. In addition to hulling the concerns' own paddy either raw or boiled for the purpose of trade, they hull paddy for hire also. No doubt it is paying during years of favourable monsoons and where there is no competition, it is flourishing on a large scale for the last ten years.

Dairy farming.—It is as yet in its initial stage. It exists in places which are very near to towns and cities where the Europeans reside. Owing to the importation of cheap foreign butter and cheese into India the indigenous dairy farming is not able to compete.

In India in general the people are habituated to converting butter into ghee in the majority of cases and not to using raw butter for household purposes. Curds, milk, etc., are produced. The cows do not yield milk on a large scale when compared with the foreign cows. Cattle-breeding is not conducted in an efficient manner.

Garden produce.—It forms only 5 per cent of the whole cultivation in this province. Vegetables that are of daily use, flowers and betels, etc., are cultivated.

Cotton ginneries and sugar refineries are very few. They are founded and worked by foreign capital only in certain important districts which are suited for the particular industries.

Suggestion.—The soil in this district is very good for the cultivation of sugarcane, plantains and turmeric and root varieties. People must be educated to cultivate the particular variety in the particular soil.

Enterprises to give employment to the farmer, etc.—Mat and rattan works, fibre making, spinning and weaving must be introduced and taught in rural areas. Industrial uplift is quite necessary and it is essential that every village hamlet must be self-sufficing and self-supporting. For that the young and the old except the decrepit—as the convicts in Vellore and other central jails—should try to learn some or all the branches of industry.

Collection of the green leaf manure, converting prickly-pears into manure, that is, preparation of synthetic farm-yard manure, plantation of trees in waste and poramboke lands for purposes of organic manure, and the encouragement of cottage industry.

The best method of securing working capital would be to start a joint stock limited concern, co-operative industry and lastly from the Government.

In the initial stage share capital will not be forthcoming on a liberal scale because of the poverty of the agricultural classes. So it is necessary that either the Government or the capitalist in this country should come forward with their capital at the outset and summon the resources of the people by paying wages, giving them proper tuition and in the long run enlisting them as shareholders and thereby increasing their interest in the concern and thus enabling them to supplement their income and raise their standard of living. We may take the Triplicane Urban Co-operative Stores, Ltd., as an example. Though they deal only with provisions, it is a unique example for other industries to follow its model.

6-a Handloom and weaving.—Silk, cotton and other yarns are imported into India from Manchester, Glasgow, Liverpool, Germany and other foreign countries on a cheaper and on a larger scale. The Indian population could not compete in producing yarns. Various are the processes that have to be undergone before these yarns are turned out into cloths, saris, etc.—dyeing, carding and weaving.

The indigenous population mainly earn their living by working out one or other of the various processes mentioned above that are incidental and necessary for the manufacture of cloths. It gives employment to both young and old and men and women and girls and boys. Even in the manufacture of cloths they are unable to compete with foreign merchants. The labourers are employed on daily wages and the employer gains 15 to 20 per cent.

Fishery.—It was in its initial stages some years back and has now considerably progressed. Fishes of various species are brought from the sea and introduced into big fresh-water tanks. In course of time their progeny increase by leaps and bounds. These are leased out for periods of one or more years in wholesale. Formerly it was only a localized industry and now its range has increased as a result of the introduction of lorries and easy communication facilities. We know of cases where fishes from Chunnampet and Cheyyur are brought down to Madras and other business market centres for retail distribution.

Metal industry is very common in this province. There is no village or town which does not possess this industry. There are special classes of men who are set apart to work out this industry from time immemorial, such as the gold, silver, and iron smiths, etc. Formerly various designs in jewellery were not known. As civilization advanced improvement in the fashions have increased and in addition in recent years machinery has taken the place of manual labour as regards the manufacture of intricate and minute things. But the one good purpose served is that things are made in a shorter period than before; for example, a long thin flimsy thread in gold or silver is manufactured very easily and in a short time.

Gold is converted into jewels, ornaments and in special cases cups, plates and vessels for wealthy families. In general the goldsmith is the only person who can work out this metal. Most of this class have a general knowledge of manufacturing ordinary jewels, etc. There are also experts who are

proficient and efficient in making all kinds of jewels and in setting and mounting. Most of this class work for wages and very few possessing capital invest in the industry.

Silver.—Utensils such as cups, plates, tumblers, chombus for ordinary use in silver have become the fashion of the day. The poorer classes make jewels out of silver also.

Brass and gun-metal.—They are mainly used for casting of vessels which are used by every family, e.g., Gnanambika Metal Works, Panagal, Limited, Kalahasti.

Iron.—Crow-bars, ploughing and other agricultural implements are made of iron by the village blacksmiths. Iron industries are not worked out on a large scale except by foreign capital.

7. The co-operative banks and other banks and bankers stand in the relation of lenders, borrowers and depositors. During times of want of capital the co-operative banks are given credit by the Imperial Bank of India at a cheap rate of interest and also receive deposits from them. There is no competition between the co-operative banks and joint stock banks in this district.

II.—Indigenous banking.

1. *The function of the indigenous bankers.*—They lend money besides receiving deposits and deal in gold and silver bullion and sovereigns.

2. In some cases the indigenous banker finances agriculture by lending money on personal security and in most cases on the security of immovable property.

As regards trade and industry the bank or bankers first of all arrive at the volume of business of a particular concern. Then money is advanced proportionately to the volume of business on condition that till the loans are discharged the concern has to pay the daily or the total monthly sales to the bank or bankers.

This is in a way advantageous to both the parties. The creditor is sure of getting his money back within a short period and the debtor also is enabled to raise capital for profitable business urgency.

3. (a) In certain cases single, rich individuals invest their own money and do banking business and in most cases two or more persons join together and invest business capital.

(b) The volume of their business varies according to the capital invested.

(c) Their expenses are not much.

(d) The indigenous banks help one another during times of urgency by granting loans at a cheaper rate of interest than that allowed to ordinary borrowers.

The indigenous banks keep fixed and current deposits in the Imperial or co-operative banks and also in joint stock and exchange banks. The indigenous banks and bankers are allowed loans and even overdrafts by the Imperial and other banks.

The banks and bankers advance loans on personal security, on pledge of gold and silver, on the security of marketable commodities and on the security of lands and other immovable properties.

The period for which the loans are advanced varies from 3 to 24 months. In the generality of cases they allow only short-term loans. The rate of interest ranges from 12 to 24 per cent. Concerns such as those of the Nattukottai Chettis and Marwaris take away the interest beforehand or the interest is to be paid every month or once in 3 months along with a part of the principal.

In certain cases they lend out money on easy terms such as annual payment of interest and principal. For long-term deposits the interest they allow is higher than the interest allowed on short-term deposits.

They allow interest up to 9 per cent per annum for various kinds of deposits they receive.

6. Generally the rate of interest is 15 per cent and it also ranges from 15 to 24 per cent. And the rates can be brought down by the establishment of *firka* organizations for agricultural loan and sale purposes as suggested in question 1 (2).

The reduction in the rate will be a blessing to the agriculturist in more ways than one.

7. Prejudice against these indigenous banks exists only to a little extent.

The dealings of this class of banks with their clientele are no doubt conducted on sound lines.

8. By means of legislative enactment by the Government this class of bankers could be made more serviceable to the community, and the indigenous banking system could be improved and consolidated by proper mass education and the enlightenment of the people who are mostly conservative in spirit and character.

9. The net return of the indigenous bankers after making allowance for all their expenses mentioned will be about 10 per cent on an average.

10. The indigenous banks and bankers are not always self-supporting. At times they are in want of capital when they refuse advances. They also refuse advances when the security offered is insufficient but in most cases they do not advance as much money as is desired by the borrower. If the security offered is unacceptable, they totally refuse loans.

III.—Investment habit and attraction of capital.

1. The Imperial Bank of India, joint-stock banks, co-operative societies, and private credit concerns and bankers are the existing banking resources in this Province.

Postal savings bank and the savings bank department in all the banks encourage saving and investment habit.

All these institutions are in existence only in towns and big villages and they are not easily accessible to the people living in interior tracts. The existing facilities can be extended to the interior places by the introduction of institutions for receiving savings investment.

The Indians as a class are very conservative in their spirit and outlook and capital is not forthcoming for investment in big business or industrial concern, much less in banks. They always like to invest in gold and silver. Those who are desirous of increasing their wealth invest them on the security of gold and silver jewels and ornaments. Others who have enough and to spare spend their money in purchasing ornaments, lands, etc.

2. The Postal Cash Certificates are not very popular because of the unattractive rate of interest and want of proper advertisement.

The facilities afforded by the post office savings bank are not exhaustive. They receive deposits at any day or days of the week during office hours but do not allow withdrawal more than once in a week. Also the rate of interest allowed is not attractive.

Rich men, business men, officials and few careful middle-class people resort to such forms of investment. Proper education on a liberal scale is necessary to attract other classes also.

3. *Habits of the various classes of people with reference to monies which come into their hands.*—In general they invest on the lands of their needy neighbours and purchase them whenever they are offered for sale. They also make jewels and ornaments for their family. In some cases they purchase plough bulls, seeds, manure and agricultural implements for purposes of cultivation. Whenever they have bare cash they keep it in their own houses; they do not invest it in banks or with bankers. At times they also invest on gold and silver bullion.

4. *Growth of cheque habit* is not flourishing on a large scale. It is in common use only in towns and cities where banks and bankers are established and among the mercantile and monied classes. The ordinary agricultural population is ignorant of what a cheque is or could be. It has not spread to the masses at large because there is no necessity for them to use the same. Only the literate officials, rich men and mercantile classes who know the advantages of using cheques use them.

5. It is true that the banking and investment habit is of very slow growth in India. The Indians are very conservative and are very much afraid of investing their money in banks and business concerns. They have no liberal views and no proper education. Most of them are bent upon purchasing lands from their savings and capital is not forthcoming for investment in banks and business concerns. In addition, by private investment on the security of gold, silver and landed property they get more interest than they would by investing in banks and business concerns.

The opening of the branches of the Imperial Bank of India is beneficial largely to the mercantile and commercial classes. It does not help the agricultural population at large.

The condition of roads in general is very deplorable and the majority of the villages in the interior tracts have no easy communication. There are not even good footpaths to tread upon. If there are good communication facilities there is every possibility for the people in remote villages to come into contact with the outside world. On account of this deficiency education has not spread to the masses and most of them are backward and unprogressive as regards advancement in industrial, agricultural and economic progress. The Revenue Department which is in closer touch with the remote villages can vouchsafe to the want of roads, cart tracts and easy communication facilities.

In Germany we hear that after the invention of steam power and buses and lorries, lorries laden with manure and other things and implements useful for cultivation purposes go from village to village and voluntarily distribute them on credit to the farmers and take back their price during the harvest season.

If irrigation facilities are improved and increased on a liberal scale both the Government and the agriculturist will be greatly benefited, the Government because it need not fear having to grant remissions in land revenue during seasons of failure of monsoons and the agriculturist because he need not fear during any year or years want of rain.

Written evidence of M.R.Ey. N. N. SUVARNA Avargal, B.A., B.L., Advocate, Mangalore, President, the South Kanara District Co-operative Council of Supervision, Limited, Mangalore and the South Kanara Central Co-operative Bank, Limited, Mangalore and Vice-President, the South Kanara District Board, Mangalore.

1.—Agricultural credit and credit facilities for small industries.

1. (a) So far as this district is concerned, the agriculturist does not want finance for cultivation expenses as such expenses are incurred in kind, wages being paid in paddy or rice. He keeps a stock of seed necessary for his cultivation and as for manure, mostly local manure is used. In some cases the tenant pays rent in cash, though the rent is payable in kind and keeps the paddy or rice for himself for cultivation or monsoon expenses. Those who want paddy or rice for cultivation expenses go to the village sowcar from whom they borrow the same agreeing to repay soon after harvest with interest in kind (holi) at 33½ per cent for three or four months, which works out at 100 per cent per annum. During harvest the lender is there and takes away his share in discharge of the loan. Co-operative societies were started to wipe away this evil, but as those societies dealt only in cash, whereas the agriculturists wanted in kind, they could not benefit much by resort to the societies. No doubt by the formation of societies, the rate of interest charged by the village sowcar has been reduced, but the system of such loans still exists. The statistics of this district would show that loans issued by co-operative societies for cultivation expenses were, in 1927-28 and 1928-29, only 5 per cent and 4.6 per cent respectively out of the total loans issued. Even these cannot be said to be purely for cultivation expenses as in some parts loans obtained for paying rent to landlords by retaining the produce for himself for cultivation expenses are styled loans for cultivation expenses.

(b) The district of South Kanara has got special features as regards holding of lands. The district is an ordinary ryotwari tract which is subject to periodical revenue settlement. The pattadars are governed by two different systems of law—Mitakshara Law and Aliyasantana Law, and it could be said roughly that they hold the lands half and half. In the case of Aliyasantana pattadars the lands are managed by the seniormost member of the family and his powers of incurring debts are limited. The junior members have no right to the property except to maintenance out of the family lands. Even when such pattadars want finance for capital expenditure it is with difficulty that they can get it.

Both these classes of pattadars enjoy lands largely by leasing them out to tenants and only in a small measure by direct cultivation.

Taking the statistics of co-operative societies in this district we find the percentage of the different classes of agriculturists as follows:—

1927-28. Percentage. 1928-29. Percentage.

Total number of agriculturists	48,917		45,793	
Cultivating landholders ..	8,274	·33	7,198	·31
Non-cultivating landholders ..	2,637	·10	2,204	·09
Tenants	12,775	·50	12,270	·53
Field labourers	1,770	·07	1,692	·07

So nearly 60 per cent of the agriculturists consist of tenants and field labourers. The cultivating landholders cannot be said to cultivate all their lands for themselves as those cultivating even a small portion of their lands are included in the number. Among tenants there are three classes: Chalgeni (non-occupancy), Vaidegeni (for a fixed term), and Mulgeni (occupancy). The first class preponderates. The chalgeni tenant being a tenant at

will cannot embark on any capital expenditure for improvements as he is not sure whether he will be there to have the usufruct of his improvements and as he has no security to offer to obtain finance. The second class of tenants has no security to offer to obtain finance. It is the third class of tenants and cultivating landholders who want finance for capital expenditure on improvement, etc. They have only to mortgage their properties, in the first case only if the lease deed permits alienation. The rate of interest on mortgage varies in this district from 7 per cent to 9 per cent. But as the mortgagor has to repay the amount in a lump sum as the mortgages would not allow repayment in instalments, the borrower finds it difficult to repay the amount in a lump sum and so further mortgages the property or sells it to repay the loan.

In order to avoid such alienations and in order that the landholder may repay these loans in instalments out of his income, select co-operative societies in this district are giving loans to members up to Rs. 2,000 each for improvements to land, etc., on the security of unencumbered immovable property, the amount being repayable in annual instalments the maximum period being 10 years. The rate of interest charged by them is 8 per cent. The South Kanara Central Bank finances such societies for issuing such loans.

(c) During failure of monsoon, it is the tenant classes that suffer most. If the landlord is lenient and sympathetic, he remits a portion of the rent. Otherwise, the tenant has to borrow from any money-lender or a co-operative society and pay his landlord, if he wants to continue on the land. The land revenue is paid by the pattadar. In cases where his income is in cash, he finds no difficulty in paying it. But if his income is in kind he borrows either by pledging his produce or otherwise and pays the land revenue, the interest charged being generally 12½ to 18½ per cent.

The Imperial Bank and some joint stock banks issue loans on the pledge of produce. But as they are situated in important centres of the district, (the former in the centre of the district) agriculturists hardly resort to such banks. Co-operative banks are prepared to finance societies to meet all the demands of their members and in places where the societies are working properly the demands of the agriculturists have been met by the co-operative bank.

Professional money-lenders and merchants and dealers go to villages and enter into forward contracts for purchase of the produce and give advances to the agriculturists for their needs, in many cases on taking pledge of their produce.

It is not possible to give an estimate of the total amount of capital required for the various purposes unless enquiries are held in each village.

The deplorable condition of the tenant classes especially the chalgeni tenants which has been described above has to be improved by legislation or otherwise. A co-operative society in a village or group of villages is the only institution which can and ought to meet all the needs of the people including the agriculturists. At present all the co-operative societies cannot be said to be functioning properly. Propaganda work has to be started. The Government are now giving subsidies to some federations for giving training to panchayat members. This is not sufficient. Propaganda work has to be done in villages for which Government has to give liberal subsidies for some years.

Another difficulty experienced in rural co-operative societies as regards produce loans is the want of proper godowns to store the produce. Societies have no funds to erect godowns and so Government should make grants to erect them.

If these things are done, there is every scope for improvement.

2. The principal crops of this district are marketed in some central places. As stated already, merchants and their agents go to villages and enter into contracts and bring the produce. For issuing advances to the agriculturists they borrow from the Imperial Bank or other banks with or without pledging the produce.

It is through co-operative institutions that produce may be marketed to the satisfaction and benefit of all concerned. A godown has to be erected at each market centre and the produce held by co-operative societies round that centre should be pooled in that godown. There should be a central

agency to co-ordinate the work of the agencies. So far as this district is concerned, there should be a central agency in Mangalore from where produce is exported. Government should help in the erection of such godowns.

The Co-operative central bank has to finance for giving the necessary advances. As these banks will require more money for this purpose, Government should see that all their departments and the local bodies deposit all their monies with the co-operative bank. Government should exempt co-operative institutions from payment of money order and insurance charges and the limit of Rs. 150 fixed for remittance through treasuries has to be done away with. At present banks afford some facilities for internal remittances to and from places where there are their branches or agencies, by the issue of drafts or cheques on payment of commission.

3. The value of land depends upon several factors, e.g., the situation of land, the need of the borrower or the purchaser. Valuation as regards (a) and (b) is sometimes nominal and always lower than (c).

4. The legal impediments to mortgage of land have already been enumerated in reply to (1). There are no land mortgage banks or agricultural banks in this district. The Co-operative central bank has undertaken financing of long-term credit for improvement of land, etc., as stated already.

Land mortgage banks have to be established in each district, but the limit of Rs. 2,000 per member has to be raised to Rs. 5,000 and the rate of interest charged to them should not be more than $7\frac{1}{2}$ per cent. Tenants, for reasons stated already, cannot get long-term credit, unless their condition is improved.

(a) It would be better if all the names of the parties entitled to the property are noted in the record of rights, subsequent changes, if any, by decision in courts, being also noted.

(b) The mortgage bank should be empowered to auction the property if the amount is not paid within a specified time.

(c) No fees should be levied.

The working capital of the proposed mortgage banks should be derived at the initial stage from all the three sources. The debenture bonds should carry Government guarantee for principal.

Revenue Officers should now and then inspect the properties given as security and report if the value has in a way diminished. The title deeds may also be got verified through the Government Pleader.

The borrowing rate of mortgage banks should not be more than 6 per cent and the lending rate more than $7\frac{1}{2}$ per cent. The parties should also be made to pay the expenses of the directors or surveyors who visit the property for purposes of valuation.

Here below are the statistics of transactions under loans for discharge of prior debts issued by co-operative societies in our district—

Year.			Total amount of loans issued.	Amount of loans issued for discharge of prior debts.	Percentage.
			RS.	RS.	
1927-28	..	..	15,18,146	3,49,543	23.06
1928-29	..	..	16,78,380	4,29,488	25.06

So, nearly 25 per cent of the loans issued are for the discharge of prior debts.

Unless their economic condition is enquired into and measures devised for extinguishing their indebtedness, there is no benefit to them. In some cases through co-operative societies the lenders have collected their amounts to the detriment of the borrowers. Most of these amounts could not have been collected otherwise.

No careful investigation has been done though casual investigations had been done in about three villages some years back and it had to be given up as it was found impossible to help them in wiping off their prior debts.

5. The estimate can be easily obtained while taking census. Estimate under headings (a) and (b) could be easily taken by reference to the records in the Registration Office. The more difficult and the most important work is preparing estimates under heading (c) as such debts are common.

So far as my knowledge goes, most of the debts are in respect of items (a) and (c). These debts are mostly due to the landlords and village sowcars. The rate of interest is between 12½ per cent and 25 per cent and interest is being added to the principal from year to year in some cases. Repayments of debts are enforced during harvest time when the produce is stored in the yard or granary.

There are many cases where a large number of people are being turned into tenants for a period or tenants at will by taking usufructuary mortgage or sale deeds in respect of their properties. There is no incentive in the actual cultivator to produce more as he is not benefited thereby.

7. Unless permitted by the Registrar, co-operative banks can have no relation with joint stock banks except by way of accepting their deposits, if any. The Imperial Bank has given overdrafts to the several co-operative banks and so the relationship is that of a borrower and lender. The Imperial Bank does not even allow any interest on credit balances of Central banks.

There are at present no difficulties in the matter of finance in the case of co-operative societies.

There is no difficulty in finding finance but only in finding honest workers.

There is some competition between co-operative banks and joint stock banks with regard to deposits which the latter accept at higher rates. They have also begun to issue loans on pledge of produce, besides loans on personal security though for short periods.

Co-operative banks and institutions should be exempted from payment of income-tax, profession-tax and commission for money orders and insurances. Co-operative banks should be authorised to accept all kinds of deposits from all departments of Government and local bodies. Debentures issued by Provincial co-operative banks should be included in the list of trustee securities.

III.—Investment habit and attraction of capital.

1. All the joint stock banks and co-operative banks accept several kinds of deposits. Post offices also allow savings bank deposits. The public in towns are provided with all banking facilities for investing their surpluses, but in rural parts there are none. Such facilities can be extended to rural parts through co-operative societies. No doubt people were in the habit of investing some amounts in gold and silver, but now they have learnt the value of money and so the habit is decreasing.

2. Postal cash certificates are popular in our district. The interest rates require revision by way of reduction so that the monies may be directed to co-operative institutions. It is only the middle-class of people that mostly resort to savings bank. The home safe box deposit system is the only kind of system which can attract poor people to remit their savings as their earnings are by day.

Government by offering higher rates of interest on Government securities than those allowed by co-operative banks in some cases can be said to be competing with banking institutions. There are instances where deposits have been withdrawn and invested in Government securities.

3. Surpluses with the people were being mostly invested on landed security, though that system has now diminished in towns as there are banking facilities there. In rural parts the system of investment on landed security still continues. If they want their surplus on some future date they lend for the time being to others on personal security.

The farmers lend to fellow agriculturists in kind at 33½ per cent for three or four months, to be repayable at harvest. In prosperous years they invest on capital expenditure for improvement, etc., or lend to others.

So far as this district is concerned, it can be said that the people have become poorer and poorer. It is only the rich that have become richer. These resort to banks for investments or invest their funds on landed security whichever is profitable to them.

4. By the starting of more and more banks and the abolition of stamp duty on cheques, people are resorting to cheque system which is gaining popularity. Most dealers with banks use cheques. No steps need be taken for promoting the cheque habit as it will grow of its own accord when people learn the usefulness of the system. Vernacular scripts may be used in banking so that all classes of people may resort to it.

5. The banking and investment habit in India is of very slow growth as there were no facilities for banking. Now that the number of banks has increased the banking and investment habit is gaining ground.

The fundamental object of a co-operative institution is to promote thrift by all means and so if people are educated by propaganda work in villages, they will learn the advantages of co-operative societies wherein principles of banking and investment are involved. If we are to ameliorate the condition of the rural population our efforts should be centred in popularising and strengthening the co-operative movement.

The opening of branches of the Imperial Bank have greatly benefited the bank in affording facilities for investment of Government monies. These branches have also paved the way for starting more joint stock banks. The people have also learnt what banking is,

**Written evidence of M.R.Ey. A. VENKATESWARA RAO Garu,
B.A., Assistant Agent, Bhadrachalam Division.**

I.—Agricultural credit and credit facilities for small industries.

1. (a) The poor agriculturists in the two taluks of this division obtain finance from 'sowcars' for cultivation expenses and payment of land revenue.

(b) Permanent improvements to the land are negligible in this division.

(c) The poor agriculturist approaches the sowcar. In the case of advances for seed-grain, cent per cent of the grain advanced in the Bhadrachalam taluk and 50 per cent of the grain in the Nugur taluk of this division are charged as interest in kind, the system being termed as 'Sari' or 'Basi Nagulu.' If grain is advanced for consumption, the interest charged is 50 per cent all over, the time limit being one year if not earlier. In the case of failure to return the grain with interest in kind, it is said that in some cases compound interest in kind at 50 per cent is charged the next year. The interest in cash ranges generally from 18 to 24 per cent per annum for cash borrowed. In the case of less solvent agriculturists, the sowcars saddle them with stringent conditions that a portion of the grain the agriculturists harvest should be set apart for the exclusive use of the sowcar at the rate they (sowcars) dictate. The rate is generally fixed at 3 to 4 seers a rupee in addition to the prevailing market rate in the village. The month in which the market price is fixed varies with the kind of the grain harvested. The amount is repaid either in cash or in kind or in the shape of cattle in respect of others.

The advances that are paid by Government are mostly under the Agriculturists Loans Act, and under the New Hillmen Rules to the Koyas, but the ryots that resort to borrowing from the Government under the Act are comparatively few. In spite of the higher rate of interest, the agriculturists resort to professional money-lenders, for the reason they are easily accessible in or about their native villages.

The total amount required is about Rs. 1,00,000 for this division.

The paucity of capitalists and banking organizations is the possible cause for the existing defects in financing the agriculturist. Rural co-operative banks, if organized, would play an important part in checking usury.

No such agencies exist here except money-lenders.

2. The sowcars in this agency purchase all that the agriculturist chooses to sell and stock the grain in their godowns at rates, in most cases, previously settled at the time of advancing loans. In other cases they purchase with reference to prices lower than in the Rajahmundry market—reserving a fair margin of profit. The produce is taken down the river by the sowcars to Rajahmundry.

Joint stock banks or the Imperial Bank of India would do well to finance products during marketing, as they generally advance loans on grain harvested and stocked in granaries at lower rates of interest than those charged by the sowcars. The facilities actually existing are almost nil.

The sowcars who are bankers purchase stocks from agriculturists and consign them to Rajahmundry for sale. The sowcars pay a small commission to the merchants of Rajahmundry on the goods sold.

Hundis are the only documents through which internal remittance is transacted. Sample form is attached.

The tract is thinly populated and backward and any suggestions for improvements may not be of much avail.

3. Rs. 200 is the value of an acre of land fit for wet paddy and such industrial crops as tobacco and chillies in the Bhadrachalam taluk. Land fit for raising cholam on the river-side is valued at Rs. 50 to Rs. 100. Lands in the interior are not purchased. Lands in the Nugur taluk are inalienable.

(a) & (b) Prices secured in these two cases are comparatively low.

(c) This is generally higher than in (a) and (b).

4. Yes. Act I of 1917 prohibits the hillmen against alienation to non-hillmen without previous sanction. Mortgage or sale of agricultural holdings in the Nugur taluk is not permissible.

There are no agricultural or mortgage banks.

5. An estimate of the existing indebtedness can be obtained through registration records and through accounts maintained by the indigenous banker or sowcar who advances loans to agriculturists.

The debt is invariably due to sowcars and professional money-lenders.

The simple interest charged ranges from 18 to 24 per cent for cash taken as a loan and compound interest is charged only in rare cases. Suits in civil courts are generally resorted to for recovery of debts.

The landed property owned by the majority of classes other than sowcars has passed into the hands of creditors by sale in court or by private negotiation.

The incentive to produce more is not lost.

6. There is cattle rearing as a small subsidiary industry supplemental to agriculture in this division. Providing facilities for reserving pasture grounds on 'Kancha system,' ready veterinary help in times of cattle epidemics, provision of good breeding bulls containing milk stain for converting cows into heavy milkers are the only possible measures to augment the resources of an agriculturist.

Dairy farming seems to give better employment to the farmer during seasons when he has no work on the farm.

The best method of securing working capital for such enterprise is through rural co-operative banks.

6. (a) There is lace industry in Dummagudem under the management of Mrs. S. Cain, C.M.S.

There is silk industry on a small scale in Nugur taluk. This requires financial support and the help and co-operation of the Forest Department in allotting convenient areas having maddi growth for rearing silk worms. There are hand-loom in a primitive stage and are not progressing for want of encouraging finance.

II.—Indigenous banking.

1. Bankers lend money on pro-notes and sometimes on pledge of jewels and lands.

2. Individual money-lenders make advances for purchase of seed grain and cultivation expenses to the needy. Advances are also made for trade.

6. The rate of interest is about 50 per cent if it is paid in kind to sowcars. The rates can be brought down by the introduction of joint stock banks and co-operative banks.

The reduction does certainly confer great benefit.

7. There is much internal prejudice but the agriculturist does not betray it in the absence of co-operative societies or such other banking institutions.

Yes. Mortgage bonds executed by an agriculturist for a definite amount, say Rs. 2,000, in favour of another may be made a legal security when presented to an indigenous banker for a loan.

8. Nil.

9. An income-tax assessment sheet may perhaps be helpful in respect of one sowcar to answer the question.

10. In many cases they refuse owing to insufficiency of working capital.

11. A branch of the Imperial Bank may be opened in each taluk.

The indigenous banker will have facilities for opening transactions with the Imperial Bank and to draw money from it on credit to replenish his capital.

12. No.

III.—Investment habit and attraction of capital.

1. Timber trade.

2. Very rare in the hands of the wealthy.

Yes.

Yes.

Officials generally.

The residents of the two taluks are mostly poor.

3. Money is mostly invested in the purchase of and improvements to immovable property.

4. There is no cheque habit.

5. Propaganda work to educate the people is needed.

The opening of new branches of the Imperial Bank has facilitated the currency.

FORM NO.

DATE,

మహారాష్ట్ర

క్రాస్ ఆఫీసు

పేరు

ఫలానివారి ఆర్డరుకు

దా

(అక్షరాల)

యిందు పీఠన చెల్లుతాయించి

యీ హుండి పుచ్చుకొనగలరు.

చిత్తించవలెను.

సంతకము.

Rs.

(Translation.)

Form No.

Date ——— 19 .

M.R.Ry. (the name of the person addressed will pay to the order of the sum of Rs. in words and take this hundi back after getting it endorsed on the reverse.

Rs. ———.

Yours,

Signature.

Written evidence of M.R.Ry. G. BALASUBRAHMANYAM
Avargal, Agent, the Union Bank, Limited, Tiruvarur.

II.—Indigenous banking.

From the definition of "Indigenous Banking" published in the questionnaire circulated to the public, one has to infer that the framers had in view only the private banking institutions owned by Nattukottai Chettis and sowcars in the province. If that be so, it would be desirable to point out that the institutions of the kind above referred to cannot be regarded as public institutions, as they exist mainly for self-profiteering more than any public or philanthropic motives. The sowcars and Chettis only see to the best method of filling up their own purses at the painful expense of the poor and needy public who have to resort to them in times of emergency, in the absence of any organized public institution. No systematic work is being done in those firms nor are they properly organised. They have no definite rules to follow, nor any definite object in view. They may be doing banking business on the lines of the regular joint stock banks, at the same time indulging in worthless speculations with the aid of the same capital which would consist more of local deposits than their personal investments, confusing the accounts with the entries of both the banking transactions and those connected with the speculations they indulge in.

With the above preface, the answers to the questionnaire are given seriatim, so that they may be found consistent with the character of the institutions to which the questions relate.

1 & 2. The indigenous banker lends out money at abnormal rates of interest to the needy public with the aid of more local deposits than his own individual capital, the interest allowed to such deposits being more than double that which is allowed by either joint stock or co-operative institutions. He discounts bills, facilitates the transmission of moneys by issuing hundis and does every kind of banking business that the local conditions may require.

3 (a) One or more capitalists start the business, and their operations are confined to the particular place where it is located and its adjacent villages. As already stated, the individual capital would be far below the amount of the local deposits they are somehow able to obtain, and in the long run even that small capital which they call their own would be withdrawn, leaving the firm to maintain itself solely by the local deposits.

(b) The volume of business will be limited to the extent of the local deposits, plus any capital invested by the proprietors.

(c) Unlettered, untrained and, in many cases, irresponsible men are generally entrusted with the task of managing these institutions, the proprietors residing at their own native places leading an easy-going life, and coming to inspect the places of business at long intervals. Practically the agents who are entrusted with the management of these firms are given full liberty to transact business at their own sweet will and pleasure without any regard for the consequences. The expenses of management will be an insignificant amount given as salary, and a small percentage of the profit allowed to the principal agent who is in charge of the whole concern. The agent will take care to see that a decent amount is shown as profit every year, so that the percentage of the same falling to his share may be also a decent amount. To achieve this object bad debts would be shown as good ones, interest on them calculated and added to the income, and thus a fictitious figure shown as net profit, the agent taking immediately his share of the same.

(d) It is difficult for the joint stock or other banks to ascertain the financial status of these individual bankers. They do not have any immovable properties. They have only liquid assets. The extent of their own capital and the extent of the borrowed capital will be difficult to ascertain on account of their having places of business not only in India, but also abroad, such as Penang, Federated Malay States, Rangoon and Colombo. The capital borrowed or otherwise of one branch is also being utilised for the carrying on of business in other branches. For instance, Rangoon branches will be working with the aid of the deposits obtained in these places. For ascertaining, the aggregate worth of an

individual, one has only to rely on the accounts shown by him, such accounts not being certified by any responsible auditor. If, in spite of the above circumstances, these indigenous bankers are able to obtain substantial accommodation from joint stock and other bankers, it is only because of their reputation, and so long as they maintain uniform reputation and credit, their financial status is regarded to be sound. The moment they lose their credit in a single place, their reputation in all their places of business is lost, and all their properties are automatically vested in a body of trustees or the Official Assignee, as may be decided upon by the creditors. Their accounts are then scrutinized, consolidated statements are prepared after many years' toil, and then it is found out that an infinitesimal percentage of dividend can be distributed to the creditors. Such is the position of the indigenous banker coming under the definition of the questionnaire.

4. A form of hundi in vogue among the indigenous bankers is subjoined below with translation:—

பள்ளத்தூர்

சக்கிலவரு ஆவணியி 27உ.

ரூ. ம. வெ. க.

11-9-29.

தேவகோட்டை ச. ராம. அரு. வகை காத்தான் செட்டியார் வரவு பள்ளத்தூர் ரூ. ம. வெ. க. ராமஞ்செட்டியார் பற்று ரூ. 5,000. இந்த ரூபாய் அய்யாயிரத்தையும் ஷேயார் ஆர்ட்டுக்குக் கொண்டு வந்தார் வசம் மதுராஸ் வெ. மு. க. சுப்பிரமணியன் செட்டியார் அவர்கள் தெரிசனையில் (ஆல்வது தாளது தேதி முதல் மாதம் ஒன்றுக்கு 100க்கு முக்கால் வீதம் வட்டி சேர்த்து ஆல்வது மதுராஸ் நடப்பு வட்டியுடன் 30 நாள் தவணையில்) பணம் கொடுத்து இது செல்லுடன் எங்கள் பத்து எழுதிக் கொள்ளவேண்டியது.

இட்டிக்கு

ரூ. ம. வெ. க. ராமஞ் செட்டியார்.

Translation to the above.

R.M.L.K.,

Pallathur.

11-9-29.

To L.M.G. Subramanyan Chettiyar, Esq., Madras.

On demand

please pay to S. R. M. Ar. Kathan Chettiar of

Thirty days after sight

Devakotta or order the sum of Rs. 5,000 (rupees five thousand only) with interest at 9 per cent per annum.

and debit the amount to our

at the current Madras rate of interest account.

It will be noted that the above form contains the variety of the terms used in the hundis. It is also usual to note the purpose for which the hundi is drawn in the instrument itself.

It must be here stated that the provisions of the Stamp Act are completely ignored and many cases where mere one anna stamps are being used in cases of Usance bills can easily be detected. This leads to a variety of inconveniences to the well-organized joint stock banks who have to insist on the customers to adhere to the provisions of the Stamp Act. For instance, merchants in this district are drawing drafts on Colombo which are made payable only after a stipulated period. In some cases they make mention of the period of payment in the instrument itself and affix only an ordinary one anna stamp to it. The hundi merchants who have their own agencies at Colombo accept such instruments, and send them to their branches at Colombo and collect the amounts charging of course a reasonable commission for the trouble they take. The merchants drawing such hundis are saved the value of the stamp paper they may have to use in case they desire to negotiate such bills through the joint stock banks. This kind of unlawful practice goes on without the knowledge of the authorities by the indigenous bankers in connection with the work of the joint stock institutions to a considerable extent. If it is not out of place here, an investigation into the matter by the Government may be made and the culprits dealt with in the proper manner.

6. Indigenous banker lends out moneys to the public at abnormal rates of interest, the minimum rate never falling below 15 per cent and the maximum going as far as 36 per cent according to the need and helplessness of the borrower. In addition to the abnormal rate of interest

charged by him he insists on the interest being paid in advance and the same is deducted at the time of the disbursement of the loan. He further makes the borrower pay a small sum—about one rupee—towards a charity fund called *mahamai* fund. In certain cases the payment of interest in advance is left out of credit and suit instituted for the full amount including the interest amount taken in advance at the outset. He also opens current accounts for his customers and allows overdrafts to them, the interest, of course, being abnormal, as in the case of loans.

The indigenous bankers freely lend to each other, a current rate being fixed for the same from time to time according to the exigencies of the money market, in the same manner as they fix the Imperial Bank of India rate. They get accommodation in the Imperial Bank of India and other joint stock banks, one banker standing as surety to the other. The privilege of cross credit that was being till lately allowed by the Imperial and other joint stock banks was very helpful to them, and the discontinuance of the same by the Imperial Bank, which is gradually being followed by the other banks as well, has too much interfered with their smooth sailing.

They allow six per cent interest on current deposits and $7\frac{1}{2}$ to 9 per cent on fixed deposits according to the period of the same.

6. It is the agriculturist that falls into the trap of the indigenous banker more than other people. As was already stated, the minimum rate charged by him is 15 per cent. A small amount borrowed by the agriculturist from the indigenous banker at the outset for agricultural purposes increases gradually by the accumulation of interest and the incapacity of the agriculturist in liquidating the loan out of the sale proceeds of the following harvest owing to the insufficient yield, and the seeming indifference of the sower—the indigenous banker—in realizing the amount on the due date result in the swelling of the borrowed amount to such an extent as to make the borrower unable to liquidate the accumulated sum without being obliged to sell away at least a portion of his lands.

The moment the indigenous banker realizes the position of the borrower, he brings pressure to bear on him and the result is that the agriculturist has to sell away his lands for a considerably low price to the banker himself.

More money-making machines as these indigenous bankers are, any attempt to mend their system with a view to bring down the high rates of interest would be futile. However, having regard to the fact that the Banking Enquiry Committee is established with a view to improve the condition of the indigenous banker by bringing about a better organization, it may be suggested that a maximum rate of interest should be fixed for the granting of the loans with severe penal provisions for getting any higher amount in any shape whatever from the borrower. Their accounts may be subjected to compulsory audit by independent auditors appointed by the Government. The fees of the auditor should be fixed by the Government themselves at the outset, such amount being made to be remitted by the indigenous banker to the Government from whom the auditor so appointed should get the amount. One of the functions of the auditor should be to make local enquiries with regard to the method of business carried on by the indigenous banker, and he should further verify the correctness of his accounts with close reference to the documents obtained by him from the borrowers.

If by effecting the above improvements, the agriculturist is enabled to get advances at reasonable rates of interest, his position is sure to improve and he would be considerably relieved of the trouble and anxiety.

7. Surely there is a strong prejudice against the indigenous banker, who is a mere exploiter, having absolutely no mercy on the poor ryot.

They (the indigenous bankers) are sufficiently protected in law, in the absence of any penal provisions for their exploitation.

The answers given to the previous questions contain the replies to the remaining portion of this question.

8. Any attempt to systematize the working of the institutions will serve no useful purpose, as they will not subject themselves to any kind of systematic work. And any extent of penal provisions will have likewise no effect as any trespass on their part cannot be detected. For instance, supposing the Act prohibits the lending of moneys beyond a maximum percentage; the indigenous banker will take care to see that the document is executed consistent with the law, but he will take the extra interest not

provided for in the document beforehand and that amount will not find a place anywhere in his account books, although, as a certain philosopher of the present day has stated, his money will be noiselessly multiplying like malarial mosquitoes bred in the stagnant cesspool water.

The remaining portion of this question need not be answered for reasons contained above.

9. In spite of the abnormal rate of interest charged by the indigenous banker his average net profit every year falls at times even below that percentage which any well-managed joint-stock bank would get. The reason for that is that loans are granted without due regard to the property qualifications of the borrowers, nor do they care for their respectability. Persons having self-respect will not resort to these individuals. So the majority of the persons going to this class of indigenous bankers are only persons having no reputation to lose. Consequently, bad debts occur more frequently than in the case of joint stock institutions. Their justification for the high rate of interest charged by them is that they have to frequently write off the bad debts. However, there are instances to show that with a small capital, say Rs. 5,000, invested at the outset in private banking business some of these indigenous bankers have been able to amass more than a lakh of rupees within a brief period of fifteen years. The exorbitant rates of interest charged by them on the loans they advance to their customers, with the help of not only the small capital invested by them but also of the local deposits they are able to get, and the prudence exercised by them in the management of business enable them to make such a large profit as mentioned above.

10. Yes. They successfully manage to meet all the legitimate demands for accommodation, unless it be owing to the unacceptable nature of the security offered. They do labour under the difficulty of insufficient capital occasionally but unsystematic as they are throughout, their evasiveness in the matter of meeting the demands now and then does not very much affect their business as the customers with whom they deal are generally unbusinesslike and ignorant.

11. Here again an unpractical method has to be suggested. The value of setting apart a portion of their annual profits towards a Reserve fund and to allow the Reserve fund to accumulate independent of the general working capital by investing the same separately either in G.P. notes or as fixed deposits with his bankers is not appreciated by them. If they do so and cause their accounts to be audited and certified by an independent auditor as suggested in the answer to question 8, then the indigenous bankers would be in a position to acquire some status in the financial world which would be followed by their being linked with the central money market and provincial capitals. An investment of a decent proportion of their working capital in G.P. notes and the publication of their annual statement of accounts in the manner explained above will be a progress made by them in the right direction. Their being recognized as factors in matters of central finance will depend on the nature of their financial position as exhibited by the statement of accounts published.

Yes. The establishment of a branch of a joint stock bank or of a Central Reserve Bank with a local directorate or advisory board will be useful to the indigenous banks of the type above mentioned.

The answer to the latter part of this question is contained in the answer given to the main question.

As for competition of a joint stock bank with the indigenous banker, it depends on the morale and character of the latter.

12. No. As far as the southern districts of the Madras Presidency are concerned, public confidence in indigenous bankers of the above type has been lost owing to frequent and numerous failures of many of them and consequent heavy loss incurred by a variety of capitalists here. The loss of confidence in the indigenous bankers has resulted in the withdrawal of the money invested with them by the capitalist public and its deposit with the joint stock banks who as a consequence suffer from the glut. The joint stock bankers in their turn being unable to find proper investment among their clientele, have to resort either to the provincial banks (joint stock or co-operative) where they invest their moneys as short-term deposits or purchase G.P. notes or treasury bills whichever may be had advantageously.

The last question does not arise with regard to the indigenous banks although the same may arise with regard to the joint stock institutions which may probably be dealt with in the case of the questionnaire of the Central Banking Enquiry Committee.

Written evidence of Mr. K. G. SIVASWAMI, Member, Servants of India Society, Mahadanapuram Post, Kulittalai Taluk, Trichinopoly District.

1.—Agricultural credit and credit facilities for small industries.

Agriculture and small industries are financed in various ways in the village. There are the agricultural money-lenders, the dealers of requisites as leather, and hardwares in rural markets, the brokers in towns who advance money on the commercial produce, the retail village dealer who exports the produce, a few Chetti shops here and there, a few nidhis and private or company banks, and lastly the co-operative society which issue rural credit. None of these agencies is so well organized as to obtain cheap, prompt and useful credit for the ryot. Considering the inherent difficulties in making the ryots combine for common ends and administer efficiently any banking institution, I would suggest the following methods for the development of the banking habit and the finance of agriculture and cottage industries.

1. No institution other than the co-operative will really help the ryots in the village in the matter of agricultural credit. But it should get assimilated as a village credit organization by being enabled to get village deposits big and small, and to issue small loans in dribblets as and when necessary. This has to be achieved by obtaining the confidence of the richer class of ryots to make deposits and by so spreading the co-operative credit service as to compel outside money to flow into the movement. The former requires intensive propaganda, and the latter, the efficiency of the village society and several other things too detailed below. Trained clerks or office-bearers are needed to look to the clerical side of the work of the society. Secondly, as it may take a long time before we get energetic panchayats working for the good of the village, this deficiency should be made up by the opening of branches of district banks in as many places as possible, wherever you find a rural market and a money-lending shop. These branches should distribute credit even to the individual member if necessary at the request of the village co-operative society, supply things, store his produce, in fact do all the services which the private money-lending service does. Thirdly, as the object of the co-operative movement is only to keep intact the co-operative character of the village primary, and as the other central institutions are only to help the latter, we need not try at this stage of the movement to obtain logical perfection in the constitution of the central societies. Central store societies can help a great deal in distributing things to the village primaries and thus making the credit issued by the latter used for a useful purpose. These need not be on the co-operative basis. They may have a mixed constitution as in district central banks or consist purely of individuals, the restricted dividend being the only safeguard. As district central banks undertake larger functions as proposed in this note, it is necessary that their constitution should be strengthened with more individuals who could supply them with direction, administrative capacity and banking knowledge. The prompt distribution of credit will alone induce the ryots to put in their savings and draw from their account as and when required. Such opening of current accounts will necessitate the use of cheques and thus the banking habit will spread.

2. There are other credit requirements such as land improvement and redemption of mortgage indebtedness. The clearing and levelling of the land and the digging of wells are the purposes for which loans are usually taken. The Agricultural Department should be made responsible for the economic improvement of the ryot and it should have a definite place in the non-official organizations whose functions are the promotion of productive rural credit. To segregate it as an expert department whose function stops with advice does not obtain useful co-operative results in the present working of the co-operative movement. It does not matter if the Co-operative Department does this work but it has no propaganda staff, its officers are not trained agricultural officers, and it is not charged with the duty of spreading agricultural improvements. These limitations should therefore be removed.

As regards the agency for such loans, the State may issue them di the village primary on the recommendation of the agricultural mental staff.

3. It should be noted that agricultural credit will be better supervised by the staff of the Agricultural Department and some definite arrangements are necessary for training the higher non-official staff in agricultural methods and co-ordinating or amalgamating its work with that of the demonstrators with a view to make agricultural credit productive.

4. It is unwise to make land mortgage banks as agencies for loans for land improvements. Their directorate might not take the initiative in the matter. The present policy of starting primary land mortgage banks throughout the Presidency will surely help the redemption of prior debts.

**Written evidence of M.R.Ry. Rao Sahib K. S. SESHACHALA
 AYYAR Avargal, Secretary, the Co-operative Town Bank,
 Limited, Tiruvannamalai.**

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturists in North and South Arcot districts are generally classified under five heads:—(1) small landholders actually cultivating the fields, (2) big mirasdars actually cultivating their lands with the help of hired labour, (3) pattadars leasing their lands to tenants, (4) agricultural tenants and (5) agricultural labourers.

The actual cultivators of lands are pattadar cultivators and tenant cultivators. Assuming the extent of cultivable lands to be 1,000 acres and the cultivating families to be a thousand, the proportion will be cultivating big pattadars 10 holding 200 acres, non-cultivating pattadars 50 holding 500 acres, cultivating small holders 440 holding 300 acres and tenants 500 holding 500 acres. Big holders do not usually raise loans for cultivation expenses as they are able to have a large stock of seeds and grains from the harvest and even for kist they sell the produce. 50 per cent of such people have lent their savings to the other cultivators of the village and in the surroundings and eventually become the indigenous bankers of the village. Small land-holding cultivators and tenants are the only people who are raising loans not only for cultivation expenses but also for their maintenance, food for cattle, ceremonial expenses and kist throughout the year and hand over the entire produce to their financiers during harvest, and then begin to borrow again. The stipulations for such petty loans are that the entire amount advanced then and there must be returned during harvest in the threshing floor itself in kind at the lowest price of the year with interest at three Madras measures per rupee. The advance will last at the most for a period of four to six months and it will work out from 75 to 100 per cent. Another peculiarity of this contract is that the entire quantity got is handed over to the sowcar without any settlement of accounts and he is allowed to fix the price himself at a later date. Usually in many accounts the produce got in a year is not adequate to repay the advances as per calculations made by the sowcar and the balance remaining every year is added to the secured debt already due from the cultivator.

Besides these annual advances, cultivators raise loans mostly on mortgage of their lands and houses, for the purchase of lands, bulls, carts and houses, for digging wells, law expenses, marriages and other ceremonies. The rate of interest for such mortgage loans will be from 18 to 24 per cent up to Rs. 500 and the interest and principal are added every three years and a fresh mortgage executed or the interest accrued and the balance of advances are added and subsequent mortgages are executed for the amount. The cases of many of the big mirasdars, both cultivating and non-cultivating, are in no way better. They also raise loans for purchase of lands, building houses, marriage and other ceremonial expenses, etc., at rates varying from 12 to 18 per cent. Loans for one-fourth of the value of their net assets are got on promissory notes and any sums over and above that are generally given on mortgages. In many cases the amounts accumulate with interests and when pressed for money the assets do not fetch even 50 per cent of their value.

In these parts loans to agriculturists are got only from the following:—

(1) *Petty money-lenders in villages.*—These are landholders or merchants who by their economical habits save something and lend it to their neighbours and gradually they find a liking for the money-lending profession. They take advances from the professional money-lenders at a low rate of interest, say 12 per cent, and advance the same to their neighbours at 18 to 24 per cent. Generally they take hold of the produce from their debtors and use it for their working capital to deal in grains during harvest. These are the people that get possession of the saleable produce in the village at the first instance. Their proportion among the agriculturists is about 5 per cent.

(2) *Professional money-lenders*.—Money-lending forms a hereditary profession among the class generally and until some years back they had no landed properties. Their working capital will be from Rs. 10,000 to 4 or 5 lakhs and they have a definite clientele of debtors in villages. This class is mostly residing in towns and dealing with villagers. They are financing small trades also. Their rate of interest is always from 15 to 24 per cent. They are shrewd calculators and they get enormous gains not only in interest but also in many other ways, i.e., delay in disbursing loans after the execution of the documents, fixing their own price for the produce got in repayment of loans, delay in crediting repayments, exacting penal rates, refusing credits for repayments, non-maintenance of proper accounts, and the like.

(3) *Indigenous bankers*.—I like to classify Nattukottai Chettis, Marwaris and big money-lenders depending upon banking alone as indigenous bankers. Marwaris' and Nattukottai Chettis' firms open branches in almost all big centres and their agents are able to assess the credit of agriculturists and traders and lend large sums for short periods on one or more sureties. The Marwaris take hundis from their borrowers and discount them in the Imperial Bank. The maximum for Nattukottai Chettis to lend to individuals will be ordinarily Rs. 5,000 and Marwaris about Rs. 10,000. Both these firms are financed by the Imperial Bank by allowing overdrafts to the parent firms. The rate of interest found on the promissory notes is generally 36 per cent and the stipulation is that in case of punctual payment the rate will be 18 per cent. Fifty per cent of the cases go to court and decrees are got for 36 per cent. There may be a few cases of loss in their transactions and the margin got over and above their stipulations in courts is more than enough to meet such losses and other philanthropic undertakings to keep on their position and influence.

(4) *Co-operative banks*.—There is a net work of co-operative societies in villages and their transactions are considerably very small when compared to the agricultural debt in each village. The membership is very small although many of the agriculturists are debtors. Their debts to sowcars are always pressing and ruining them and, unless they are reclaimed from outside debts, short-term loans for agricultural expenses or for their produce are out of question. Even when co-operative loans are used for agriculture the produce got therefrom is taken hold of by the sowcars for their dues and in such a plight they have no produce to pledge. As the present system in co-operative societies is not suitable to reclaim the agriculturists from sowcars' debts, members of societies are already resorting to the sowcars for repayment of their co-operative debts and societies are being deserted. So the influence of co-operation in agricultural credit is not considerable for the present. If the land mortgage banks to be established in the near future can make long-term loans available to village societies to be lent on mortgages to its members up to a maximum of Rs. 1,000 and bifurcate the work of mortgage banks in regard to loans for more than Rs. 1,000, co-operative credit will be appreciated by the agriculturists and it will be a proper substitute for all other injurious credit now prevalent among them.

(5) *Joint stock banks*.—Even though they are multiplying their branches they are not issuing direct credit to agriculturists and they are creating a number of middlemen both in agricultural and trade credits.

(6) Government are issuing loans under the Agriculturists Loans Act and they are mostly utilized for repayment of pressing debts of the agriculturists and even that is got only by a few in each village. More depends upon the tahsildar who is anxious to spend the allotment given to him every year.

I would suggest as a remedy to the existing evils—

(1) that the rate of interest on loans should be restricted to 12 per cent as the maximum;

(2) that money-lending must be made a licensed profession enforcing on the money-lenders the regular keeping of accounts and rendering the same annually to Government;

(3) that co-operative banks in villages should be enabled to advance mortgage loans to agriculturists up to a maximum of Rs. 1,000 each for clearing prior debts and improvement of agriculture and the repayment to be spread over twenty to thirty years;

(4) that discounting of such mortgage bonds should be undertaken by the Imperial Bank of India direct to societies or through central banks ; and

(5) that lending for marriage and other ceremonies above a maximum of Rs. 1,000 and for purposes unproductive should be made illegal throwing the burden on the lender to prove the productive character of the loan.

2. *Marketing crops*.—The principal crops that are marketed in these parts are groundnut, paddy, and cereals. All these are mostly exported by mundi merchants in urban areas who have got their collecting agents spread throughout the district and usually these produces are not held up but sold away to the highest advantage available then and there. Advances on crops on condition to repay in kind with 25 per cent of interest till the time of harvest, probably not more than four months, are given by village petty merchants and the produces are gathered during the harvest and sold to the urban trader; he in turn prepares them ready for market husking the paddy and decorticating the groundnut and sells them direct to the exporter or to the far away consumer. There are a range of middlemen not less than half a dozen between the producer and the consumer and their margin of profit clubbed together will not be less than the actual price got by the producer at the outset. The co-operative movement attempts to help the producers by advancing small loans to the cultivators on condition that their saleable produce should be entrusted to the societies for joint and favourable sale. This was not successful hitherto and there are a lot of difficulties to overcome—

(1) The panchayatdars of societies themselves are mostly dealers in grains during harvest, i.e., they collect the produce of the villagers during harvest and sell them at once to the nearest merchant and their influence over the illiterate members of the society is availed of to their own advantage in many cases.

(2) The prices offered by the petty intermediaries in villages are always equal to, if not slightly higher than, the price ruling in grain markets and the difference in their profits is made up illicitly by false weights and miscalculations. A co-operative society is not able to adopt such illegal means.

(3) The cultivator is already indebted to sowcars for large amounts and advances for agriculture are therefore taken from them and the saleable produce is naturally handed over to the sowcar whatever may be the disadvantages.

Paddy is generally consumed within the country and the market is safe and steady, but groundnut is largely exported to foreign countries and the exporting business is more or less a monopoly of a few European firms working in these parts. Prices for groundnut are always fluctuating at the sweet will and pleasure of the exporter. They safeguard themselves with forward contracts with foreign firms even at the sowing season and gamble to purchase at the lowest price possible. By such speculations many intermediary merchants have been ruined. Co-operative movement, being amateur and resourceless, could not compete with such firms who have already made provisions to risk in such speculations. Unless the Government comes forward to bring out remedial measures, it is not possible to tackle the subject by co-operation or any other agency. So far as delivery of produce is concerned value is paid only on actual delivery of the produce by the villagers and no system of bills or hundis is in vogue in these parts. I would suggest that proper weights and measures should be insisted on and Government must be able to ascertain the foreign market and inform the producers of the maximum price that may be available for their produce. As for co-operative joint-sale, a beginning must be made by establishing a co-operative export agency in Madras manned by experienced commercial experts and that must be able to connect the several co-operative organizations with foreign markets and get them assurance of sale of their produce at a fixed advantageous price.

3. Cultivable lands may be classified for their value as follows:—

(1) wet lands having perennial irrigational sources such as river channels, etc.;

(2) wet lands having wells;

(3) wet lands depending on irrigation by rain-fed tanks;

(4) dry lands adjacent to or in the midst of wet areas and fit for only wet cultivation;

(5) dry lands provided with wells; and

(6) ordinary dry lands.

The value of these lands will approximately be—

	a. Rs.	b. Rs.	c. Rs.
1.	1,000	1,000	1,500
2.	600	600	1,000
3.	300	300	500
4.	300	200	400
5.	100	100	200
6.	30	30	50

4. Land mortgage banks have been started in some places. Many of them are doing no work for want of finances. The central mortgage bank is now to be started to finance these banks. It would be advantageous if co-operative finance is specifically divided into long-term and short-term and the former distributed to members through the existing central banks and village societies rather than separate organizations to be started for the purpose. Government should guarantee interest on debentures the only safeguard being that every individual long-term loan should be passed after obtaining considered legal opinion by any responsible officer of Government.

5. I am not able to give an estimate of the indebtedness of the ryots in these parts but I would give a proportion of their indebtedness assuming Rs. 900 to be the value of their immovable properties and Rs. 100 to be their movables. An average of Rs. 400 will be mortgage debt and Rs. 200 will be on promissory notes and accounts. Out of these Rs. 600, Rs. 400 would have been the legacy of prior debts, Rs. 100 raised for marriage and other ceremonies and another hundred used as an overdraft for cultivation and other annual expenses. As for the proportion of the creditors for these debts the Government agricultural loans will be about Rs. 2, banks Rs. 10, co-operative societies Rs. 188 and indigenous bankers and money-lenders Rs. 400. The rate of interest charged by Government is 6½ per cent, by banks 8 to 10 per cent, by co-operative societies 9½ per cent and by professional money-lenders 18 to 36 per cent. Many of the landholders within the last two decades have become tenants or agricultural labourers having lost their lands in favour of their creditors and a portion of such people have migrated to find labour either in plantations or in mines. Cultivation by tenants of land once in their possession has deteriorated on account of their indifference or heartlessness.

6. There are no subsidiary industries undertaken by ryots worth the name in villages for the present. As the entire saleable produce of paddy is carried away to towns during harvest there is no rice-milling in villages and after the introduction of rice-mills everywhere even villagers find it easy to husk their paddy in the mills and no manual labour is applied for this purpose. All cattle except those required for cultivation purposes, i.e., ploughing, have either perished or been sold away for want of facilities of grazing as the forests have been closed against them or the seigniorage and other restrictions are exorbitant. People in villages get their supplies from towns and dairy farming is out of the question. Garden produce generally does not benefit them as it is not organized. The following cottage industries may be introduced in villages if they are organized on proper lines with necessary finances. Government must advance loans earmarked for the purpose to the all India Spinners' Association or a similar association having as its object the revival of cottage industries and providing small industries for the agriculturists for the off season.

Spinning, weaving, rope-making, gardening, oil-crushing, dairying, pig-rearing and poultry are some of the industries that can be safely introduced in villages. The co-operative movement is the only proper agency that can be of help to the villagers not only in reducing the burden of indebtedness but also for financing agricultural improvements and other small industries in villages. Trust funds will be of great help if added to the co-operative finance. Joint stock banks and the Imperial Bank of India are not directly dealing with the agriculturists but they are financing the large range of middlemen who are only parasites on the slender resources of the agriculturists. I would like that the Imperial Bank of India which is enjoying

a large amount of the tax-payers' money without interest every year is bound to render financial help to a large extent to the co-operative movement. If such an accommodation is assured there will be no difficulty in the co-operative movement to find necessary finances to redeem the agriculturists from their outside indebtedness.

II.—Indigenous banking.

The Imperial Bank's branches in districts are for the present mostly transmitting agencies on behalf of their mother bank and here and there overdrafts are given to a few joint stock banks. These were few and they were able to attract deposits because the rate of interest allowed by them was much higher than the lending rate of the Imperial Bank, and their lending was mostly to speculative merchants at rates from 12 to 18 per cent. Recently we had one out of two banks in Vellore liquidated. As for the co-operative banks they are not able to attract deposits for the reason that the agriculturists in these parts have no saving and the savings of middlemen are mostly used in business that gives them lucrative gains. Naturally the co-operative movement in these parts expects to be financed by outside depositors through the provincial bank. There are no individuals taking deposits but there are Nattukottai Chettis and Marwaris and many other money-lenders who are advancing short loans to traders and agriculturists. Hundis are used only by Marwaris who have overdraft accounts with the Imperial Bank and discount them. The rate of interest now paid by agriculturists is from 18 to 48 per cent and the maximum rate should be fixed by legislation. The history of each loan should be gone through by courts and compound interest should be disallowed. Such a legislation will render great help to the agricultural community.

7. Money-lenders are not liked by their own debtors for the simple reason that the former have an eye on getting the maximum out of their debtors by fair or foul means, even at the risk of ruining the latter. Their dealings with their debtors are in very many cases not on sound lines and the weakness and character of the borrower is freely utilized to the advantage of the creditor.

8. Money-lending above a certain limit should be classified as banking and such businesses should be controlled by a Banking Act whereby the bankers should submit an annual account audited by certified auditors with a list of outstanding debts due from the borrowers. Issuing receipts for repayment of loans must be made compulsory. It is usual with this class of money-lenders to maintain a number of account books in the names of different persons in the family to avoid the levy of proper income-tax. Such irregularities should also be prevented. I would like in cases where properties are attached for the dues and brought to sale that publicity of such sales should be given in villages where the properties are situated sufficiently long before the sales and the sales should be conducted on the spot by a responsible officer of the court.

9. The indigenous bankers get on an average, after meeting their legal expenses and other losses, 15 per cent in these parts.

10. No banker is able to meet all demands but his transactions are restricted to a certain set of approved customers.

11. I would like every taluk centre to have a co-operative bank, serving as a branch of joint stock banks and the central reserve bank financing the village societies and also individuals for loans above the maximum of Rs. 1,000 and managed by a local directorate. It must be able to attract all kinds of deposits in the area.

12. I do not think there is any amount of capital lying idle with anybody in these parts but when a maximum is fixed for the lending rate and other restrictions are imposed by legislation the lending capital of some of the money-lenders would be invested in banks.

I would also like to draw the attention of the Committee to the growing evil of registering all sorts of institutions as banks to finance the agriculturists. Such diversions of the available capital by speculative and gambling attractions should be discouraged by Government by refusing to register them as corporate bodies. A livestock insurance company was recently started and fabulous salaries were offered to its agents and very many

villagers who joined this institution discontinued, losing the amounts they paid already. There is a bank offering loans to agriculturists at 1 per cent per annum and its system is that each intending borrower should secure a number of other borrowers before taking a loan. There is another company which offers loans without interest by casting lots. Such attractions are sure to draw in a number of poor innocent agriculturists eventually to be disappointed in their expectations. Such organizations should be prohibited.

III.—Investment habit and attraction of capital.

Investments will come only if there are really any savings. So far as the agriculturists are concerned they have no savings worth the name and if in a prosperous year they have any savings it is being lent to their fellow agriculturists at usurious rates or they invest them in jewels or purchase lands. Cheques will be made popular if the co-operative loans are drawn by cheques by allowing overdrafts to every borrower of the society and in such a case cheques will be accepted in the money markets and in trade activities.

**Written evidence of John S. PONNAYYA, Esq., M.A., Lecturer
in History and Economics, A. C. College, Guntur.**

Some problems of organization.

Capital.—An extension of banking facilities will, doubtless, increase the volume of capital by the mobilization of resources and the increased circulation of the existing capital. But the future of banking development depends to a large extent on the successful attraction of more capital which will fertilize agriculture, industry and trade, which, in turn, will go to swell the streams of savings and the accumulation of national wealth.

Much savable capital does exist in the country in the shape of (1) "small amounts" in the hands of millions of people who have no facilities or the knowledge of the advantages of savings, (2) wealth, now used "unproductively," especially investments in jewellery and expenditure on ceremonies and marriage celebrations, whose magnitude and reactions on the economic life of the nation cannot be ignored, (3) that portion of the country's savings, now mobilized by the foreign insurance companies and banking concerns, but not invested in India and (4) potential capital, i.e., the development of our agriculture, and the exploitation of other economic resources would result in the accumulation of enormous savings and wealth. A sound banking development should be based on all these factors.

The post office savings banks.—The comparatively few branches and small deposits are striking in the case of Indian banking, the main reason for which being the absence of suitable agencies, until very recently, for tapping the large untouched repositories of capital. In view of the great importance of deposits to a sound banking development, vigorous efforts must be made to attract more capital from the unexplored regions of the villages and the lower classes of the urban population.

That there exists much deposit banking in the rural areas is indisputable from the fact of the working of 'chit associations.' Sir Basil Blackett said once, "I cannot help thinking that there must be great possibilities of development in this system. A considerable part, if not the whole, of the money required for provincial capital expenditure could be found out of the proceeds of cash certificates. It is my earnest hope that before long means may be found for taking up this subject in earnest."

The co-operative credit societies cannot take up this work owing to the unsatisfactory personnel of the directorate, the lack of business ability and the absence of a unity of organization among the primaries. The post office is the only satisfactory agency, because of its country-wide organizations and of its efficiency of administration.

More village post offices should be opened and the scope of operations considerably extended. The deposit system should be adapted to the rural conditions and needs, and it should follow the indigenous methods. Prudential and recurring deposit schemes should be adopted. Five-rupee cash certificates also may be introduced. The scope for the attraction of long-term deposits in the form of education annuities, etc., may be investigated. As Professor Wadia suggests the cash certificates may be popularized by making them payable for land revenue. His other suggestion that the village officers might be advised to sell cash certificates for a small commission is also worthy of consideration. The pass books should be issued in the vernaculars of the district and in English. The rates of interest might be slightly enhanced. The post office, in the villages should function as a primary national State bank until the development of suitable private agencies.

In urban areas, the co-operative societies, the joint stock banks and the post office afford ample facilities for middle class investments. But great efforts should be made to extend the facilities to the lower classes of the

population, especially to labourers and workers of all kinds. The management might be induced to pay wages and bonuses now and then in the shape of cash certificates. The experiment may be tried at first in the Railway workshops. There must be a closer co-operation between the post offices and the management of factories, workshops and Government contractors. In the case of workers and the rural population Government guarantee of deposits should be given as was done in some States of America.

Insurance savings.—While deposit savings are most useful for granting short-dated loans for trade and commerce, insurance savings are necessary for the promotion of industry and public works.

The Government might introduce compulsory insurance schemes in the case of its employees, granting a small subsidy in the case of those in the lower ranks. The pension system for such people is unsatisfactory from the point of view of savings.

The local bodies and institutions of all kinds should be encouraged to follow suit.

A State aided insurance company may be floated with considerable advantage to the Presidency. Such an organization might take up insurance business in the villages also, as public health activities are expanded.

Hoards.—The greatest impediment to the enormous growth of deposit savings is the jewellery habit. Sir George Schuster has pointed out how the large imports of the precious metals for the past ten years ending with 31st March 1929 amounting to about 380 crores of rupees, if not used "unproductively" as is done now, would have been available for investment in Government loans and for increasing our favourable balance of trade.

Education and propaganda are necessary for the cure of this habit among the people. The indulgence in it among the lower middle classes and the poor is deplorable, especially when there is no gold currency and hence convertibility in times of stress.

The introduction of a gold currency cannot solve completely this problem of investment in jewels. Gold certificates will not appeal to the common people for whose savings they have been proposed. The problem resolves itself ultimately to one of education and propaganda.

If legislation is introduced, bullion merchants and jewellers may be subjected to a licence duty. The profession-tax in the municipal and non-municipal areas may be enhanced. A tax on turnover will also be good, if a suitable machinery can be found for its administration.

Money-lenders.—Stringent legislation is necessary in order to eliminate the parasites and shylocks of the village money market. Their usefulness is justified only under conditions of the absence of other credit agencies; but with increasing banking facilities the case for their continuance is weak. They must be absorbed in the regular credit institutions of the country.

The money-lenders should be obliged to take out licences from the Revenue Officers of the taluk for transactions over say Rs. 500 per annum. The profession-tax in the municipal and non-municipal areas may also be enhanced.

Legislation is essential for preventing usury. A Rural Insolvency Act may also be enacted as was suggested by the Registrar of Co-operative Societies, Bombay.

Indigenous banking.—As distinct from individual money-lending there are other organized methods of banking such as (1) an individual or an association of individuals for receiving deposits on the "chit" system, especially among the common people, (2) single proprietorship or partnership firms receiving deposits mainly from the wealthy and the middle classes and assisting trade by means of loans, advances, discounting of hundis and rediscounting them at times with the joint stock or Imperial Bank, (3) funds or nidhis, most of them registered and carrying on business on the lines of joint stock banking, but especially in mortgage of urban property. These institutions at the present time benefit the townsmen most.

The existence of a number of separate organizations, independent of each other, is not conducive to the mobilization of resources. Hence, means of co-operation should be devised as early as possible.

In the case of the first class of banking institutions some measure of licensing is necessary to check the frauds so prevalent in the rural areas.

Some close co-operation between the joint stock banks and the indigenous banking firms is possible; probably the smaller ones might be recognized as the accredited agents of the former in unrepresented areas. They might also be easily amalgamated. In the case of the more important of the traditional private banking houses, a central organization might be devised by the co-operation of the local houses. A central indigenous bank for the Chettis of our Presidency is not an impracticable proposal. Such an organization would be in a position to have branches in districts in course of time.

In the case of nidhis and registered firms such as loan companies, the best plan would be to recognize them as branches of the proposed mortgage bank. Amalgamation, wherever possible, should also be encouraged.

Mortgage banks.—"The mortgage of urban property or land mortgage has not been studied and cultivated as an exclusive line of business in our country, while this business is chiefly in the hands of the indigenous banks and members of the wealthy class."

The proposed central land mortgage bank for which Government has given guarantee of interest is therefore the most welcome institution. The scope of the bank should be extended so as to include mortgage of urban property as well.

It is necessary to emphasize that the proposed bank should not be a replica of the co-operative apex bank with its district banks, unions and primaries. The exclusive adoption of the co-operative principle is also unnecessary, if not harmful. Each town or a revenue firka may have its own bank affiliated to the central bank unless smaller ones are constituted as branches of a larger bank. Decentralization is necessary for efficiency.

The working capital of the mortgage bank can be derived largely from fixed deposits and debenture bonds. The Government might subscribe to debenture bonds in the backward districts so as to attract private deposits. The insurance companies and other institutions might place their funds in this bank.

It is unnecessary to extend the concessions at present given to the co-operative societies to the new mortgage bank. The Government loses considerable revenue by the exemption of co-operative societies from stamp duty. The lower rates of interest and Government guarantee are in themselves a great boon.

With the introduction of such a bank the Government might retire as a direct credit supplying agency, i.e., the Land Improvement Loans Act and the Takavi Loans Act may be repealed.

Co-operative finance.—The establishment of a separate agency for a long-term credit for agriculture would mean giving effect to one of the most important recommendations of the Townsend Committee, viz., the separation of the short-term finance from that of the long term.

The primary co-operative societies should limit their operations to the financing of cultivation expenses, granting of crop loans, produce loans or advances for payment of land revenue. Unless each society is made to forecast its demands at least six months ahead, the grant of short-term credit facilities is impossible. Capital for short-term credit should come from (1) a compulsory deposit system as in Bombay, (2) the short-term deposits and current deposits of the central bank, (3) overdrafts from the Imperial Bank, and (4) overdrafts from the post office savings banks. The last point has been emphasized by Sir Lalubhai Samaldas.

The co-operative societies or a separate *ad hoc* company may be organized for the sale of better implements, improved variety of seeds, manures and also of agricultural machinery, especially cheap power pumping plants on the basis of the hire-purchase system. The adoption of this principle would mean a great revolution in agriculture. Professor Seligman observes, "the

average loss under this system is less than one-fifth of 1 per cent, that is considerably lower than the usual commercial and industrial percentage of trade losses, while, out of the total of 36,000,000,000 dollars aggregate retail trade of the United States a year ago, no less than one-sixth was contributed under this system of distribution credit." The Department of Industries might promote the formation of genuine Indian trading companies for this purpose.

The separation of long-term credit from short-term credit necessitates a change in the finance of the district banks. The large amount of fixed deposits of the local bodies should be transferred either to the mortgage bank or the industrial bank. The dependence of the central banks on long-term deposits of the local bodies encourages indirectly overdues in primary societies and failure to attract more local deposits.

The urban societies should be encouraged to finance the small trader, who keeps current account with it. This service cannot be performed by the Imperial Bank or the joint stock banks. The urban societies must adopt some of the methods of the indigenous banks in financing the small trader. They should be developed as so many branches of the district banks, and not merely kept as loan-disbursing agencies.

A State aided industrial bank.—Specialization in banking needs the establishment of a separate agency for financing industry. The need has been recognized long ago and the Industrial Commission, while approving the suggestion of the Bombay Industries Advisory Board, has recommended the appointment of an expert committee to decide this question.

The Government is the only agency at the present time which undertakes to some extent the financing of industry according to the provisions of the State Aid to Industries Act of 1922. State loans are also granted to certain co-operative societies such as the building societies. Municipalities and local boards borrow money from the Government for the construction of public works. The non-credit co-operative societies obtain finance for small industries from the central banks. Thus there is not merely the absence of a suitable financing agency, but also a lack of co-ordination of activities.

The most suitable agency for the financing of small industries is the co-operative bank. Some of the important industries, especially handloom-weaving, have fallen into the clutches of the financing middlemen. Urban societies should investigate this problem and go to the rescue of the small industrialists to act as their financing and selling agency. The Co-operative Department should direct its activities in this direction.

Our country needs the establishment of many industrial concerns using power for the development of many agricultural and small industries as have been suggested by the Industrial Commission and the Agricultural Commission. The Department of Industries should investigate such schemes and promote or assist the floatation of private companies for the purpose. The necessary technical assistance also should be supplied by the department. This problem needs the greatest attention in view of hydro-electric development in the near future.

The present anomalous position of the Department of Industries should go. For it is at once an administrative, financing and managing body. A clear demarcation of functions is essential for the efficient working of the department. Financing must be done by a bank; management should be left to private enterprise; technical assistance, research and expert advice should be supplied by the Department of Industries.

The establishment of a State aided industrial bank will solve the problem of financing agency. Private joint stock bank for this purpose is not a possibility in the near future. Government guarantee of interest or some other form of State aid should be given to some sound bank promoted for this purpose. The Provincial Government may borrow from the Central Revenues or in a foreign market and place the funds at the disposal of the bank under adequate safeguards. Working capital will also be supplied by debentures, long-term fixed deposits of the local bodies and insurance companies. Legislation is necessary to make it obligatory on the part of foreign insurance companies doing business in India to invest a portion of their funds in India. The scheme will surely be a great success from the financial point of view. Branch banks might be opened in course of time, as the activities of the bank expand.

The scope of the industrial bank has been fully described by the Industrial Commission. Some of the provisions of the State Aid to Industries Act may also be incorporated in any legislation for the establishment of the proposed bank. All borrowings of local bodies may be transacted through the industrial bank.

The scheme is in no sense revolutionary, since it only obliges the Government to transfer its loan operations to an institution and extends them to a larger sphere.

The joint stock banks.—The problem of joint stock banks is one of consolidation, extension and amalgamation.

The scope for the extension of these institutions is indeed great; but instead of opening a number of inefficient independent banks, efforts must be made to consolidate the existing banks by granting special facilities for amalgamation and the opening of new branches. The example of the French Government might well be followed which has made provisions for the opening of subsidiary branches and special offices even in cantons having 6,000 inhabitants. Our need, as pointed out by one authority, is "penetration into the mufassal." Efforts should be made for establishing closer co-operation between the joint stock banks and the indigenous banks by enabling the shroffs and the petty bankers to perform the functions of a bill broker, as suggested by Sir Henry Strakosch.

With the establishment of a reserve bank, we may hope for a new era in the development of our joint stock banks. The exceptionally privileged position of the Imperial Bank will to some extent disappear by that measure, but yet it will continue to be their "guide, friend and philosopher." The competition of the co-operative banks and of the Government (provincial) will also be removed by the new proposals regarding their finances. With the advantages and possibilities of a closer co-operation with the indigenous banks and of the Imperial Bank on the one hand, and of the solidarity arising from the "single reserve system" of a central bank on the other, the joint stock banks have a bright future.

Summary of conclusions.—The guiding principles of the development of a sound provincial banking system are: (1) an increasing role of the State in the provision of banking facilities and of assistance to Indian concerns, (2) the development of the deposit system on a large scale along the lines of the indigenous methods and of the establishment of a closer co-operation between the organized money market and that lying outside its influence and (3) the establishment of specialized institutions for mortgage, credit and the financing of industry.

The new proposals are—

(a) An extension of the postal savings banks and the introduction of new schemes of deposit; methods of popularizing the cash certificates both in the rural and the urban areas.

(b) Encouragement of insurance by Government assistance.

(c) Legislation against usury and for rural insolvency.

(d) Amalgamation or co-operation of the nidhis with the proposed mortgage bank and of indigenous banks with the joint stock banks; the proposal for a central indigenous bank for the Chetti community with district branches.

(e) The constitution, finances and functions of the mortgage bank.

(f) Separation of long-term from short-term finance of the co-operative district banks; popularizing instalment selling of agricultural machinery; the development of the urban societies as so many branches of the district bank.

(g) A State aided industrial bank; constitution, finances and functions; urban societies to finance the small industrialists as agents of the industrial bank.

(h) Greater assistance and facilities for the Indian joint stock banks.

Written evidence of M.R.Ry. A. K. GOVINDARAJALU NAYUDU
Garu, Director, the Trichinopoly Tennore Hindu Permanent
Fund, Limited, Trichinopoly.

I.—Agricultural credit and credit facilities for small industries.

1. Under the present system the agriculturist, in my district, obtains finance for cultivation expenses from savings out of the previous year's profits and borrowings, for capital and permanent improvements from permanent savings and borrowings and for other special needs mostly from borrowings. The prevailing rate of interest is 15 per cent per annum and the minimum period for which loans are taken is 4 to 6 years.

The following are the different kinds of security given and accepted—lands, jewels, sureties. The Government do not play any appreciable part in agricultural finance. The co-operative banks and professional money-lenders mainly finance the agriculturists.

2. The present method of marketing the principal crop which is paddy in this district is to sell it retail to traders under pressure of Government revenue, domestic expenses and creditors. In my opinion, co-operative societies ought to take up the work of storing all the produce, lend money for the urgent needs of the agriculturists on security of the produce and arrange for cheap sale of this produce.

3. The factors affecting the value of lands of these parts are: the irrigation facilities, previous year's yields and the circular kist. Again the value of land varies as the crops that can be raised on them. Lands are sold for comparatively a lower value in Government auction and court sales than in purchases in private negotiation.

4. Mortgages of lands are difficult to transact as complicated questions of title often arise. There are about half a dozen land mortgage banks in the Presidency, but the high officialdom that prevails makes it difficult for the agriculturists to receive any useful and timely help from them. Their capital is mainly raised by floating debentures. Real service can be done to the agriculturists by starting more mortgage banks almost in every village. I would suggest that the land mortgage banks themselves should keep complete and accurate records of rights and title of all the villagers to facilitate easy, quick and certain reference. And such references ought to be made available at a cheap cost. The Government ought to guarantee for the debenture holders.

5. The rate of interest is high but it is due to the enormous cost of enforced collection of debts and dishonesty in some cases. A good number of efficient farmers have to forego their holdings under pressure of debts. This process does prevent efficient and intensive cultivation.

6. There is absolutely no subsidiary industry worth the name in this district and I would very strongly suggest the starting and maintaining of dairy farming on a large scale. That industry can be well improved by the Co-operative Department taking it up.

II.—Indigenous banking.

1. The indigenous banks are mainly of the Nattukkottai Chettis. They do not assist agriculture by lending to farmers but their benefit is wholly minimized by the high interest they demand. Providing easy means of collection by reducing court fees and quick disposal of justice, and removing the heavy burden of income-tax on their profits would tend to reduce the rate of interest at which these banks have to lend.

2. There is certainly a large amount of capital lying idle in the chest of some of our zamindars who are unwilling to float them for the simple

reason that the court fees are prohibitive, justice is delayed and what little will remain to the lender it is the duty of the Income Tax Department to carry away.

3. The post office savings bank, the provident fund and the life insurance companies provide facilities for saving, but these institutions as at present managed serve only the educated few and a small number of officials. The tendency nowadays is rather to deposit savings in banks than to lend privately. There is not much of mutual loan between farmers.

4. Cheque habit is not much in vogue as the educated classes alone appreciate the use and value of them. I would suggest the use of vernacular scripts in banking. Banking habit is of slow growth but it is one of the blessings of the country. But even there, there is yet scope for reducing the percentage of interest at which money is lent. I would for my part suggest 5 per cent, as the rate of interest at which the co-operative societies lend money is rather high. Investment in jewellery is gradually disappearing ; co-operation and banking ought to be made special compulsory subjects in education and I would suggest propaganda work also.

**Written evidence of M.R.Ry. N. KAMESWARA RAO Garu,
Secretary, Alamuru Local Co-operative Union, Limited.**

1.—Agricultural credit and credit facilities for small industries.

1. In this district and specially in the area of operation of the Alamuru Local Co-operative Union, which is limited to Alamuru revenue division, the agricultural expenses are being made by loans from co-operative credit societies. The co-operative societies are working efficiently in this area and each village has a society which provides loans for the majority of the cultivating population. There is also a local supervising agency to look to the efficient management of the societies in the Alamuru revenue division. The transactions in the area amount to nearly 8 lakhs of rupees. The ryot is usually granted three classes of loans, the short-term, the intermediate and the long-term loans. Short-term loans are being granted for land revenue, cultivation expenses and other special needs such as failure of monsoon, family expenses, etc. The intermediate loans are granted for a period of six years for purchase of manure, cattle and the planting and improvement of gardens. There is a co-operative land mortgage bank with its headquarters at Alamuru to give long-term credit to the villages within a radius of five miles. It is granting loans on mortgage of land for a period of twenty years, for the liquidation of prior debts, for permanent improvements to lands and purchase of lands. These co-operative institutions have a standing of only seven years but they have gained a firm footing and are now in a position to throw the local sowcar out of the field.

Local sowcars used to finance the ryots and villagers before the advent of the co-operative societies for all their needs. The lending rate was between 20 per cent and 40 per cent, the minimum being 20 per cent. Though the societies are working in the area with a substantial capital, the local money-lenders are transacting business to some extent. But their business is not so encouraging as before and they are investing most of their monies on lands. There is a keen competition in almost all the villages between the local sowcars and the co-operative societies. But the societies are worked by the most prominent and influential persons of the village and the rivals are not able to do them any harm in the face. The result is that the sowcars are compelled to reduce their rates of interest and the sowcars' lending rate now varies between 9 per cent and 20 per cent and there is not a single loan standing above 20 per cent now. The local co-operators are regularly preaching the gospel of co-operation, and the societies are gradually gaining the confidence of the people, enough to attract their savings as deposits in the societies.

No part, worth mentioning, is played in agricultural finance by Government, the Imperial Bank of India, the joint stock banks or other indigenous banks or bankers in this area, to help the ryot directly. The Imperial Bank is only lending on security of produce godowns to a few landlords and merchants in the area. Most of the agricultural credit in the area is granted by co-operative institutions, as described above.

A capital of about Rs. 60 lakhs is sufficient for the varied needs of the population in this area; and I think, no other movement except the co-operative can solve this problem better.

There is co-ordination of financing agencies in this area only between the co-operative institutions, while the other agencies try to compete not only among themselves but also with the co-operative societies and central banks. The scope for improvement in this direction is only possible by the development of co-operative institutions with all facilities. At least the central banks should be permitted to lend on securities of gold and silver ornaments.

2. The local producers keep part of their produce for local demands and sell the rest to the agent of some wholesale merchant of the nearest town and this merchant pools the produce so gathered in his godowns. Soon after he gets a favourable price he sells it to the exporter. The business

is conducted by a wholesale merchant who gets his capital from the Imperial Bank or some other joint stock bank. Thus, the real gain in the rising prices of produce goes to the town exporter who is a middleman and not to the ryot who toils with the sweat on his brows to produce it.

Creating market facilities and the formation of pools for the produce come under the general heading of non-credit activities in the co-operative movement. The present state of non-credit activities is not at all encouraging in this Presidency and there is not even an encouraging feature within our ken, unless sufficient facilities are granted by Government to the existing conditions. At present there are few purchase and sale societies and even they are not functioning well for want of financial support and facilities under the by-laws. The only eyewash of the ryot in the existing societies is the facility of crop loans and joint loans. The former are just now becoming popular in our parts while the latter are not sufficiently understood yet and taken advantage of by the villagers. To improve the Indian agriculture and to be useful to the ryot economically the only possible way is to develop co-operative marketing on a wide scale by the organization of a network of pooling centres which should be within easy reach of even the small producer.

In the opinion of some co-operators, a central financing institution for the whole Presidency to finance the various non-credit institutions is necessary. But, I think, there will be no great use by multiplying the class of financing institutions by allowing a good margin of profit for each and thus raising the lending rate to the borrower for whose relief the movement is intended.

At present there is an apex bank to balance and direct the credit of the various district co-operative central banks and generally there is a central bank for each district to finance the various societies (credit) in the district. But there is a complaint from the village co-operators that the district financing institution is not within easy reach for transmission of the monies of village societies and for this reason the village societies are not able to supply money to ryots in due time for their needs. This is one of the reasons why the ryot is not able to derive the full benefits of the co-operative credit system and has still to run to the local sowcar for his agricultural investments and family expenses. So, there is an agitation for starting branches of the apex bank at various convenient centres in the district with a small area for the operation of each branch to finance the villagers in time at a lower rate of interest by eliminating margins of profit of the intermediary institutions.

These branches should be given facilities for transacting the business of gold and silver loans and produce loans on large scale, besides the usual function of financing the primary societies. As the area of operation for these branches is limited, the managing members of the branches can have full knowledge of the local condition and the status and honesty of the customers; so that there will be very little scope for fraud or dishonesty which the Central Bank at a distance cannot be expected to detect.

This sort of business on large scale cannot possibly be transacted by the village societies which are now suffering for want of human material.

These branches must be provided with large godowns built on the up-to-date models to pool the produce of the area and for this purpose the Government should provide the branches with substantial subsidies. The Government also should help them by giving some of their deposits to create certain confidence in the public. The audit may as well be in the Government hands for the confidence of the public.

The various branches of the apex bank in the whole Presidency control the produce, each in its own area, the apex bank having full control on all these branches. This will facilitate the pooling of the produce of the whole Presidency to develop the internal and foreign trade. The branches situated in important towns and the apex bank in the metropolis can easily arrange for the sale of the produce in the best market. The market conditions of various trade centres must be communicated to all the branches as often as necessary by broadcasting or some such speedy methods as the Czechoslovakian co-operators and agriculturists are managing to do.

The produce of a bumper year may be held on for a lean year. The Government should give a revolving fund for this purpose similar to the one recently sanctioned by the Federal Government of the United States of America to the co-operative marketing societies. By this the level of prices can be controlled and relief speedily provided for famine areas. Speedy transport and marketing for perishables can be also arranged by this method.

By judicious granting of bounties to our producers through the above co-operative organizations, we can also prevent the inflow of foreign products which may be dumped into our markets by foreigners without entirely depending on the support of tariff wall.

3. In this district the value of land is between Rs. 400 and Rs. 2,000 per acre. The wet lands are of a higher value than the dry lands. Competition between the purchasers of lands is one of the chief reasons for affecting the value. If there is no competition between buyers in a certain place, the seller has to sell his lands as asked by the buyers by the pressure of his creditors to repay his debts. Value of land in Government auction for non-payment of revenue and the value of land in the event of sale by court decree cannot be estimated definitely. There will be only few cases of that sort, and the values will mostly depend on competition between bidders. In both the cases the value of land will not be far less than the value of land bought by private negotiation.

4. There is a land mortgage bank working at Alamuru with 35 neighbouring villages for its area of operation, all situated within a distance of five miles from Alamuru. The bank was started only last year and its work is very encouraging within the short period of its existence.

The bank lends to the members for a period of 20 years and the borrowers have to pay interest at 9 per cent each year on the outstanding amount of the loan together with an instalment of the principal. The capital is raised by floating debentures. The Registrar of Co-operative Societies is the trustee of the bank and he will control and regulate the issue of debentures taking care of the financial position of the bank.

In the event of non-payment of loans by members the bank should have powers by a resolution of the board of directors to sell the mortgaged land by public auction after giving sufficient notice to the parties. Special officers are to be appointed to inspect the banks, and advise them in legal matters and one officer is to be put in charge of one or two banks only to concentrate all his attention for the development and efficient management of the banks in his charge.

There are only 20 land mortgage banks in the Presidency, out of which four only are working in the Andhra districts. Even these four banks have been started recently. On the whole the working of the land mortgage banks in this Presidency is not at all encouraging owing to the lack of financial support from the central organization and difficulties in applying the existing by-laws in the practical working.

The members of the primary land mortgage banks are now complaining that a great injustice is done them by the 57th by-law which imposes an additional three months' interest on all advance repayments. This condition is levying too heavy a fine on constituents who are able to repay from their savings sooner than they expected. It naturally creates a tendency to spend it otherwise in the interval which cannot be helped. He thus remains a debtor to the bank till the expiry of the originally expected time. This curtails the scope for the liquidation of his debt sooner, even if he can. In a country like our own, where agriculture is a gamble in the monsoon, the ryot may be able to repay most of his debt in a favourable season and such a condition will be too heavy for him. And with this heavy fine on advance payments our banks will be to him of no better use than the Marwari or sowcar. This is one of the reasons for the failure of the land mortgage banks in our Presidency and these banks will never be able to relieve the ryot of his proverbially heavy indebtedness, if he is not offered better opportunities for repayments which is the sole aim of these banks. This question, I hope, is one essentially to be tackled by the central land mortgage bank; and I think an amendment of this by-law is necessary for the progress of these banks and the good of the constituents for whom they are started.

This question can be easily tackled if the Madras Central Urban Bank is allowed to issue debentures for long-term loans, and to finance the primary land mortgage banks directly. If the primary land mortgage banks are financed this way, any advance collections from members can be remitted to the Madras Central Urban Bank which can invest these sums in its short-term business. In this case the Madras Central Urban Bank should allow the primary land mortgage banks to float debentures and supply only the money that is required over and above the sum so raised. This leaves the primary land mortgage banks as independent constituents of the Madras Central Urban Bank like the present district central banks. If this is not feasible, the central land mortgage bank as conceived by the Committee should be to the primary land mortgage banks in the same relation as the present Madras Central Urban Bank is to the district central banks.

Besides tackling the question of advance payments, this scheme confers another great advantage. Some of the local capital which may be unwilling to go to buy debentures in a bank in the metropolis, will flow into this; and such inducement is necessary for the development of banking and investment habits in the Indian villages, where "capital is naturally shy." I think this is one of the essential factors for consideration in any banking scheme for the Indian rural population.

5. For the increase of credit facilities to the agricultural classes, it is necessary to reach an estimate as accurate as possible of the existing indebtedness of these classes.

To find out an approximate indebtedness of these classes an enquiry committee for a village or a group of villages has to be appointed. But accurate figures cannot be obtained as there is a tendency in the people not to expose their income or debt to the public. Therefore, if the existing by-laws of the village co-operative credit societies give scope for more sums to be drawn to meet the demands of the village landlords, the question of preparing an estimate of the total indebtedness of the villages does not come in the way. From my experience in the village co-operative societies for the last 7 years, I can say that, if the management of village societies is put on an efficient and firm basis, these societies and land mortgage banks working in a limited area can meet all the demands of these agricultural classes and clear away the total indebtedness of the ryots by which they are described as being crippled down. There are only few educated people living in the villages to undertake the heavy work of a village society. Even if they undertake to do this, they are not paid amply. They have to do honorary work. The society will have to work regularly under a wholetime responsible person if its aims have to be realized. Therefore, it is essential to think of a better scheme for the efficient working of the village societies through which only it is possible to devise measures for giving credit facilities to the agricultural classes.

It is difficult, however, to give a correct or even an approximate account of the debts incurred for various purposes shown in the sub-question. For information regarding the other questions, my answer to the first question may be referred.

In deltaic areas like this, there should be some subsidiary industry to engage the agriculturist when he has no work in the fields. The ryots are simply whiling away their leisure time in chit-chatting and scandal-mongering or playing cards, if not in lazy sleep. But if they are properly attracted by some subsidiary industry which creates a sort of activity and liveliness in the village folk, it not only adds to their income individually, but also enhances the wealth of the country by preventing waste of energy. Generally, the ryot feels a sort of conservative sentiment of self-respect and prestige. So, the industry should be such a one as would not be repulsive to this sentiment of his. The industry should be one that can yield a fairly good return for the labour invested. The capital for the industry may be got by loans from the village co-operative society on individual or joint responsibility as the nature of the industry may necessitate.

In order to put them in the run for such industry there should be schools situated at convenient centres for half a dozen villages at the least, to attract the villagers by exhibitions, to train them in handicrafts and to

arrange for the disposal of the articles prepared by them. These schools should be maintained by subsidies from Government and local boards. The course of training in the schools should not have the terse atmosphere of present day technical training schools or colleges. It should be conducted at any common meeting place of the villagers. Spinning and weaving, embroidery, rattan works, tape-making, rope-making, mat-weaving, carpet-weaving, engraving, dye-sinking, carpentry, cutlery and the like handicrafts may be taught in these institutions.

7. There is absolutely no relation between co-operative banks and other banks in the country, except the Imperial Bank of India which gives cash credit to Co-operative Central Banks to a certain amount fixed by the Registrar of Co-operative Societies according to the transactions and financial standing of the bank.

There is a general dearth of capital in India and to make up for this deficiency, all the local bodies' deposits, irrespective of the present proportion fixed, must be given to the Central Banks, and the amounts in the post office savings banks should also be given as deposits for one and two years to the central banks. A part of the local revenues, say Rs. 1,000, also must be given to make up the working capital of these banks. The present co-operative credit societies must transact all short-term and interim credit, leaving the long-term transactions to land mortgage banks exclusively. The Government ought not to hesitate to take these steps as the audit is entirely in their hands. The maximum borrowing powers of the societies and individuals may be left to be fixed at the discretion of the financing banks, as this will solve the complaint of the inadequate credit of some societies and individuals.

Generally speaking, there is no competition between co-operative banks and joint stock banks, as the Central Banks are prevented by the Act from undertaking most of the banking business done by the other joint stock banks. But the recent introduction of crop loans in co-operative credit societies is opening a field for competition and the rate of interest at which the joint stock banks and the Imperial Bank offer to lend on crops is more advantageous and this may ultimately spoil the business of the co-operative credit societies, unless the central banks are quick in offering similar facilities to its members, by reducing its rate of interest specially on crop loans.

The one possible concession desirable for co-operative banks is the exemption from income-tax of all deposits in registered co-operative institutions, as this will draw the idle capital of the conservative villagers whom the dread of income-tax tempts to hide their money. Another essential concession for co-operative institutions is a specially low rate of money order commission and insurance charges, and charges for telegraphic money orders and messages between co-operative institutions on co-operative business. This has been represented to the Government many a time by resolutions of district and provincial conferences, but in vain. This concession has been granted in Bihar and Orissa and some other provinces. The Government should also give the co-operative institutions the convenience of free remittance transfer receipts through their treasuries.

II.—Indigenous banking.

3. Indigenous bankers are not many in this district, and the amount of their transactions cannot be calculated with any amount of accuracy as they do not give correct information of their business for fear of income-tax officers.

They also do not accept deposits to any appreciable extent. Some rich Marwaris of places like Rajahmundry and Cocanada have transactions with the Imperial Bank and their hundis and pro-notes are discounted by the Imperial Bank. Their rates of interest are generally high and the conditions imposed in the transactions are exacting. They lend mostly on gold, but in reliable cases on pro-notes. So, the people have a general prejudice against these Marwari bankers.

8. They are a set exclusively devoted to selfish interests and individual profits, and it is not possible to turn their business to any great service to the agricultural community. So, I do not think any privileges are necessary for their business.

9. My own idea is that they make an average profit of not less than 20 per cent on their working capital.

11. As suggested in my answers to the second question, I think, the branches of co-operative banks in convenient local centres with local directorates will be of immense value. But there will be no great use in developing these indigenous bankers in the present state of our country.

III.—Investment habit and attraction of capital.

1. The existing banking facilities are through joint stock banks and the Imperial Bank, besides the co-operative banks and their apex bank. There are also professional money-lenders and individual bankers in important trade centres.

To encourage the investment habit in individuals there are only the aforesaid banks most of which open savings accounts, besides the postal savings banks where there are sub-post offices.

To improve and extend the investment habits of the villagers, the aim must be to put the co-operative societies on an efficient basis and allow them to offer a decent rate of interest to attract local savings. They may even go to the extent of introducing compulsory savings deposit for every member. This will also give a fairly good amount to the working capital of the movement. The existing investment facilities are only in the urban areas, far away from the rural populace who need it most, and any method to improve the saving and investment habit of the villager can only be introduced through co-operative societies which must be put on a sound financial basis and under efficient management.

Investment facilities were few and far between in olden days, and the people grew into the habit of investing on gold and silver jewellery. Moreover jewellery is the only property of the ladies on which the Hindu Law on the debts of men cannot lay its clutches. This has been in vogue for such a long time that it has become part of their nature to invest part of their savings at least in this form of luxury and ornamentation. This habit is no doubt a mere vanity, but in some cases the widows of deceased persons are finding their means only on the investment of these jewels. But if they are given banking and investment facilities, they may be drawn into these habits of investments in course of time.

2. The Postal Cash Certificates are popular only in towns and with a few educated people of big villages. Most of the villagers do not go in for them as they do not know sometimes even of their existence. To popularize them they must be sold through co-operative societies and part of the money given as deposits to the societies. Another necessary alternative to popularize them is to create public confidence in them by offering to repay the money even before the expiry of the set time at a certain rate of interest. When the society is the agent to sell these certificates, the people who are in close touch and who have daily relations with the society can clearly understand and will be naturally tempted to invest their savings on these certificates, and their sale will increase appreciably. It is desirable to print them in the vernaculars.

The money got by the agriculturist is hardly sufficient for him to eke out a living after paying the kist to the Government, the rent to his landlord and the numerous charges of cultivation. If at all he could save a morsel out of it, it goes to repay part of the interest on his debts incurred in the generally drought years, while the principal remains as it is.

The farmers can rarely afford to lend money. But in cases where they lend the terms will not be so rigid as those of the local money-lenders, but the rate of interest is not low enough.

4. The cheque habit can be popularized only if proper facilities are offered, even in villages—for instance, the local co-operative society of Alamuru, which, situated in a rural area, is able to attract current deposits to an appreciable amount within a short time after its introduction of current account. Most of the educated middle class are freely using cheques. This is the result of the facility offered.

The cheques must be in vernacular, as most of the village population do not care for English education.

5. Yes.

For want of facilities. Banks are firstly not within easy reach of most of the population which lives in villages. Some uneducated people are even timid to approach the town banks which have an idea of official tyranny. Even some of the townsmen do not care to go to the joint stock banks to invest their savings, as they are not quite well received by the bank officials, their account being small in amounts.

This question has been answered at various places in the answers to my previous questions. The investments of the villagers can be improved only through co-operative institutions; and for this non-official propaganda with liberal subsidies from Government is the best.

**Written evidence of M.R.Ry. C. BHANUMURTI Garu, B.A., L.T.,
Retired Telugu Translator to Government, Bhimavaram.**

*1.—Agricultural credit and credit facilities for small industries.
General.*

I have had but little contact with agriculturists before retiring from service. Ever since retirement, I have had but a few years' acquaintance with the village ryots, and that has been confined to three or four villages, one of which is wet and the others dry, all of which are poor in agricultural resources and development. With so little direct contact with agricultural life, I would have preferred to preserve silence, but for some grave grievances of the ryot population demanding prompt redress, which force themselves on my attention.

2. The bulk of the village ryots come under two categories, one possessing small holdings of their own and the other labouring as sub-tenants of land-owning middlemen, who are hardly able to eke out a living. The problem of life as regards the latter class is bereft of the data for solution. Even a member of the former class 'clinging with a despairing grip' to the few acres that come to his share is confronted with insurmountable difficulties at every step. The village ryot has, of course, some knowledge of the traditional methods of agriculture, followed from time immemorial in his country, which are at best crude and unsatisfactory. He is otherwise steeped in utter ignorance. Lacking a knowledge of the elementary principles of arithmetic and all business habits, he keeps no accounts and is utterly incapable of arriving at correct statistics which enable him to understand the net results of his labours and may serve as the basis of any representation he may have to make to the authorities. He is devoid of all initiative in the matter of organizing guilds and societies calculated to aid him in the various concerns of his life, such as raising loans and securing improved machinery, good seed, fertilizers, and favourable markets. He is thus far behind his fellow in the civilized countries. There is, therefore, hardly any question comprised in the questionnaire to which a favourable reply can be given with reference to him.

3. This is not all. The village ryot has not the necessary intelligence and push to turn to account the few institutions started in the country to lend him a helping hand, such as the co-operative credit societies and the branches of the Imperial Banks. He is too shy and timid to approach the authorities and derive the benefit of legislative measures meant for his aid such as the Land Improvement Loans Act. He is entirely devoid of business habits such as are needed for the strict utilization of the loans for the intended objects and the regular payment of instalments and the co-operative credit societies with their short-term loans afford him little relief. As a result of all this, 90 per cent of the ryots are still resorting to usurers for raising even small loans at exorbitant rates of interest ranging from 18 to 36 per cent per annum. Most of them do not possess even this credit. They are therefore constrained to have recourse to the pernicious system of raising money on 'jatti-chittu,' forward contract agreements, whereby the ryot binds himself to sell his paddy or other produce to his creditor at a rate of discount of one rupee or more per bag on the market value thereof at harvest time. This works out, all things considered, at the iniquitous rate of 40 or 50 per cent per annum; or, worse still, he is forced to borrow grain at a rate of 'namu,' i.e., interest in kind, of half a bag per every bag of grain advanced for a period of six months. This works out to cent per cent per annum.

4. Meagre as my knowledge is of the life of the agriculturist and of the work of the agencies such as the Imperial Bank and the co-operative credit societies, I feel I have to offer the following few suggestions in view of the flagrant evils above referred to:—

(i) that land mortgage societies granting long-term loans such as the one now existing at Gudlavalleru, Kistna District, may be established at important agricultural centres, with necessary safeguards in the matter of check and audit;

(ii) that joint stock companies may be started on a co-operative basis in each village or a convenient group of them for a liberal supply of improved agricultural machinery, select seeds and fertilizers; and

(iii) that store-houses for stocking agricultural produce to be sold at advantageous prices may be provided at convenient centres, where branch banks do not exist, on the security of which loans may be granted to the ryots.

Written evidence of the Statistical Assistant, Office of the Director of Agriculture.

I.—Agricultural credit and credit facilities for small industries.

1. (a) An average ryot is generally in a position to meet his expenses in cultivating his staple food crops on his land without any loan, if the crop year previous was a favourable one. He reserves his own seed and the grains required for coohie. He has his own cattle and manure. Only when the crop in the previous year failed or when he attempts to grow new crops as sugarcane and groundnut, he feels the want of capital and has to go to money-lenders who are available locally or in the adjoining villages. Besides, Government grant loans under the Agriculturists Loans Act XII of 1884 for the purchase of seeds, fodder, ploughing cattle, etc. But they are not being availed of to the fullest extent for the following reasons:—

(i) The subordinate Revenue Officers do not encourage them for fear that the amounts not recoverable from the borrowers are recovered compulsorily from themselves or they are punished in the alternative by stoppage of increment to their pay and of promotion; and

(ii) occasionally cases of misuse of the concession by the borrowers also occur. For example, a ryot applies for a loan for the purchase of a pair of bulls when he has already one and the fact cannot be easily verified by the Revenue Officers in spite of their searching enquiry.

(b) Cultivators get loans from Government generally for sinking wells in areas where well sinking is necessary and useful and also for reclamation of lands under the Land Improvement Loans Act XIX of 1883. Here too the working of the Act is not as wide nor as popular with the officers dealing with the Act or with the ryots borrowing as could be expected. No Revenue Officer feels that he is safe in recommending or granting a loan for fear of his having to make good eventually the amount not recoverable from the borrower. On the ryot's side, he feels worried by demands for the recovery of capital and interest in spite of his adverse circumstances to which the collecting officers pay little heed, often to safeguard Government money and to save themselves from the strictures of superior officers for slack work. Statistics up to date about improvements effected with the aid of State loans are not available readily. But the statistics printed on page 11 of the Madras Takavi Manual will show that the total advances made by Government during the 12 years ending with 1908-09 were to the extent of Rs. 66,81,110 and improvements were effected as per details noted below:—

						Rs.
Number of wells, 12,886	..	..	..	..	..	18,12,832
Reclamation of land, extent, 57,139 acres	..	..	..	..	..	8,65,111
Other works, 52,073 acres	..	..	..	..	..	6,63,966
Purchase of cattle	..	..	..	..	..	18,27,922
Purchase of fodder	..	..	..	..	..	7,51,087
Purchase of seed-grains	..	..	..	..	..	1,03,185
Other purposes	..	..	..	..	..	93,929

It may also be observed that Rs. 89,000 was advanced for the purchase and installation of 29 oil engines and pumps for irrigation.

(c) Generally for the special needs as failure of monsoon and for land revenue, the ryots have been shifting for themselves by borrowing from the local money-lenders. The rates of interest vary with individuals. Ryots owning large extents of lands (who are known as rich) command loans at interests varying from 6½ to 9 per cent. Poorer ryots have to pay 12 per cent and more generally. Lands and houses form the security mostly given and accepted. Loans on the security of standing crops, such as groundnut, sugarcane and cotton, are comparatively limited and are granted only by traders and middlemen in the name of advances with interest varying from 12 to 18 per cent.

The credit for all the capital and permanent improvements of cultivable lands done so far in the country should go to Government. The financing done by professional money-lenders to cultivators has been extensive and also uniformly ruinous to ryots as they have been impoverished and their lands also have gone to the hands of money-lenders. Advances by merchants and dealers including companies trading in fertilizers only enabled the ryots to live from hand to mouth, but were not, however, so harmful as the loan given by professional money-lenders. The credit given by local banks and bankers as well as by chit funds is responsible in a way for the lavish expenditure now indulged in by ryots and for their ultimate ruin. Co-operative banks cannot be said to have already laid the true foundations in villages by both intensive and extensive propaganda on the advantages of co-operation, thrift and self and mutual help; they can be said to be only in the embryo stage. The Imperial Bank is at present more a bank to finance big traders (internal and foreign) and does not deal with villages and cultivators direct.

At present there is no co-ordination among the various credit agencies and there is wide scope for improvement all round. At the outset, charge of interest on loans over 7½ per cent should be legally prohibited. In course of time this rate of interest also should be reduced to 6 per cent by a further piece of legislation. Even the discretion at present vested in civil courts to pass in decrees only reasonable rates of interest and to disallow exorbitant rates under section 34 (1) of the Civil Procedure Code is not being exercised generally. The law about prohibition of loans at exorbitant rates of interest should be passed in spite of clamour from money-lenders just as the Child Marriage Bill was passed recently. Only then the money-lending classes would realize the advantages of banking and prefer the investment of all their capital in the co-operative or other banks to the present policy of lending to ryots involving them in tedious and troublesome process of recovery of interest and principal from the borrowers only after going to courts. Once this great obstacle is removed by special legislation, all the credit agencies can get into co-ordination easily and the way of banking will be smooth. Secondly the rate of interest under the Land Improvement Loans Act should be reduced by 50 per cent, i.e., to 3½ per cent and the same rate should apply to loans under the Agriculturists Loans Act also. It may be noted that 3 per cent was the rate of interest under the old Act. The present rates of interest, 6½ per cent under the Land Improvement and 3 per cent under the Agriculturists Loans Acts are to the cultivator anomalous. The lower rate of interest for the long-termed land improvement loan, on the use of which the cultivators' economic condition and staying power largely depend and which would also bring credit to the Government for effecting permanent improvement of the land and of the prosperity of the people, would make Government loans far more popular. Grant of loan should be extended for the sinking of drinking water wells and construction of dwelling houses. There should be a further inducement to the ryot by way of remission of interest if he sinks a well in his cultivable land and builds a dwelling house also on it. This step would tend to the migration of cultivators to their own fields, removal of congestion in villages, better sanitation and health, use of all refuse as manure and much better attention to and protection of crops. Penal interest on different scales should be dispensed with. A nominal penal interest may be charged. The contents of the Act and the rules should be condensed in the form of a leaflet and it should be permanently advertised for some years in all the newspapers, especially in the vernacular and in the agricultural and co-operative journals. The Act and the rules are very considerate especially the provisions for the loan on personal security to members of a village community, for the Collector's discretion to remit the interest in the case of poor borrowers and for the Local Government's power to grant loans at reduced interest or without interest. But they are not known to cultivators and even to a large number of the officers that are empowered to grant loans. Wherever co-operative societies and panchayats exist, the loans under both the Acts should be disbursed as loans to members of the village community through them and on their recommendations provided they are not contradicted by Revenue Officers on good grounds. Likewise, recoveries should be made through them. Suitable alterations may be made by the local Government in the present rules.

2. *Food crops.*—In the case of paddy there are a number of professional dealers and proprietors of rice-hulling machines who go about the villages and buy stocks. There is some competition and therefore the dealers make advances to the needy, thrust similar advances on other ryots and secure their customers' promise to sell the stock to them alone even long after harvest at the market rates. Except petty land-owners, a large number of the rest hold their stocks for a rise in price. Exports overseas are arranged by larger traders and owners of rice-hulling factories who collect the produce from smaller merchants. Other food crops are mostly sold to local merchants, local money-lenders to whom the cultivators are indebted, and to middlemen. The last-named people take the crops to the adjoining shandies or markets. There merchants from different localities having demand for the said grains collect and purchase them for export.

Commercial crops.—In the case of a crop like cotton, the trade is done through the local money-lenders and commission agents. Petty land owners who get crops of less than a bandy load each sell them away to the local money-lenders who are also traders for the prices dictated by them at the time of harvest or for prices settled beforehand at the time of taking loans. The other ryots take their crop to the traders or commission agents in towns who would have given them advances on demand or who would have thrust voluntarily such advances on them to be sure of getting the crop.

The same procedure is followed in the case of groundnut. Occasionally the crop is sold to the dealers even when it is on the ground and they harvest the crop and offer the produce for sale at the nearest depots kept mostly by European firms who export it to foreign countries. These firms form a tie as it were and are said to dictate their own prices to the cultivators. Hence ryots are completely ignorant of the demands overseas and cannot hold up the stock in the hope of better prices. Besides, the crop, being of a perishable nature (especially as ryots wet the crop for decortication), becomes unfit for stocking unless it is scrupulously dried.

Sugarcane is grown on comparatively small extents in the Presidency as it involves a large expense from the beginning to the end. Cultivators are generally indebted to the local money-lenders who act often as commission agents on behalf of bigger merchants. The fortune of the trade is at present very uncertain on account of the import of foreign sugar which sells cheaper than ghur, and the ryots' cultivation of the crop is more or less a speculation at present.

There are possibilities of forming pools and of co-operative effort in marketing produce. But there are considerable difficulties in the way. The number of markets worth the name in the Presidency are only a few. First, two special officers for markets should be appointed—one for the northern districts and the other for the southern districts. They should study the lines of movement of the important crops grown as paddy, ragi, jonna, cumbu, sugarcane, groundnut, gingelly and cotton, examine the condition of the present markets and propose the opening of new public markets at the rate of, say, two to four for each district according to its importance. They should get into touch with trading movements outside India and should be in a position to publish leaflets every week about the prices and the centres where the several products are in demand for the information of cultivators and traders. Markets should be managed by committees elected from the class of cultivators and traders on the lines of the proposed Commercial Crops Bill. Other organizations of agriculturists and traders in important villages outside the market centres also should be formed. In villages, intensive propaganda work should be done to educate the villagers to make joint sale and purchase and to keep the crop pure. They should be explained where every raw product of theirs goes, what profitable use they are put to in foreign countries and how they can work on similar lines if they adopt principles of co-operation. Wherever co-operative societies exist, they should undertake the work of selling the produce of their villages jointly. The marketing officer's price list and information about the centres of demand for the produce and the important merchants at those centres should guide them ordinarily. As

movements develop, marketing officers should be given agricultural assistants to help the cultivators with suggestions about the cultivation of new commercial crops that they could profitably grow to meet the demands abroad and co-operative societies and other organized trade unions about the improvements that would be necessary in converting raw produce into finished products. State aid by way of construction of godowns and their protection from fire should be given free at the outset on the Egyptian model and can be charged later on for the services rendered. No doubt large sums of money would be required for an appreciable period at the outset to finance the cultivators by way of short loans to facilitate holding up their crops till prices sufficiently rise and the required finance is found in the large deposit in banks expected of money-lenders when they are, deprived of the option to advance at their own arbitrary and usurious rates.

Written evidence of M.R.Ry. K. V. KRISHNA RAO PANTULU
Garu, Vizianagram.

I.—Agricultural credit and credit facilities for small industries.

1. (a) The agricultural population generally raise loans in the shape of money and kind from sowcars both for their maintenance and the cultivation charges. These sowcars are middlemen.

(b) The ryots are not generally in the habit of taking advantage of the Agriculturists Loans Act in this district, most part of which is zamindari tract, and Government aid is not sought for, as most of the ryots are not aware of the help that the Government is prepared to give.

(c) For land revenue the ryots are obliged to raise loans from the sowcars and in very few cases from the co-operative societies as the instalment demands for land revenue fall long before the harvesting of crops, may, marketing thereof.

The rates of interest vary from 12 per cent to 24 per cent besides the obligation of the ryot to sell his produce to his creditor for some profitable rate, i.e., at a rate less than the one ruling in the market at a stipulated period. Thus, the rate of interest may exceed even 36 per cent. The period of loan will be till the harvesting of the crop. The debtor is bound to sell all his produce only to the creditor. The cattle and the implements, carts and in extraordinary cases lands also are given as security. Agriculturists are not benefited directly either by Government, the Imperial Bank of India or joint stock companies. They are being helped financially to a certain extent by the co-operative banks and greatly by professional money-lenders and merchants. In the present system of raising loans by agriculturists from money-lenders and merchants (1) the full value of the crop raised does not go to the cultivator; (2) the agriculturists' obligation to the sowcar is extended by a demand of free labour, free supply of cattle and other minor items, thus causing great hardship to the cultivator; and (3) the cultivator, when once he becomes a prey to a sowcar, can never redeem himself and he is ever a debtor.

The introduction of co-operative agricultural banks to meet the demands of ryots for the purpose of agricultural operations and payment of land revenue and for the marketing of the produce in times favourable to the cultivator direct to the purchaser without a middleman is a remedy. Each village or a group of villages at convenient centres should have a bank.

There is no co-ordination among the various credit agencies including the Government. On the other hand one vies with the other with a desire to the market.

2. At present the crops after being harvested are not taken to the market individually by the ryots. A middleman who is generally the ryot's sowcar purchases the produce for credit by paying small advances and pays him the balance of the stipulated price at a discount some time after the produce is taken away from him. Each village generally has two or three such sowcars. It is very rare that the ryots actually take their produce to the market.

I am in favour of forming pools and of co-operative effort in marketing produce.

The present facilities for marketing the produce are, as explained above, through the middleman, in which the ryot does not derive the full benefit. The introduction of co-operative institutions for marketing the produce and advancing about 75 per cent of the market value of the produce to the ryot immediately from the co-operative institution on the pledge of the produce and the recovery of the advance with interest from the sale-proceeds of the produce by the co-operative institution at a time when the prices are favourable to the ryot will prove beneficial. Of course this advance payment may be made with reference to any loan, etc., already obtained by the ryot from the co-operative institutions.

The part played by each is to look to his own profit and try to acquire as much as he can.

3. For the purpose of giving the value of lands these have to be classified as follows:—

Dry—

(1) Garden lands with wells for irrigation. On these are grown cholam, chillies, tobacco, plantains, sugarcane, onions, turmeric, etc.

(2) Lands on which grams, cumbu and groundnut are grown without any source of irrigation.

Wet—

(1) Lands under tank irrigation.

(2) Lands under river channel system.

The prices of all the above lands vary according to the facilities of cultivation, i.e., nearness to the village-site, road communication, etc.,. However, an average price is given.

						RS.
<i>Dry—</i>						
No. (1)	Price per acre from	..	..	..	..	50—150
No. (2)	„	..	..	..	..	150—300
<i>Wet—</i>						
No. (1)	Price per acre	..	..	..	..	200—500
No. (2)	„	..	..	..	..	300—1,000

If the lands are pre-settlement inams, 25 per cent more will be demanded. The above rates refer to cases of purchase by private negotiation. In the case of sale by court decree the above rates may nearly be approached. In the case of (a) the value always falls very short; in many cases the lands may go for a considerably less value.

4. There is some legal impediment to mortgage lands under occupancy holding. There are no mortgage banks or agricultural banks in the district. They are needed. The lines on which these banks should be worked should form a separate subject. The loans in these banks should be confined to the actual bona fide needs of the cultivator and should not be a source of benefit and speculation of a mediator.

(a) Regarding record of rights and ownership of lands the restriction imposed in section 164 of the Estates Land Act on the necessity of a certain proportion of the ryots or landholders being applicants should be removed. Each man may apply and get his rights recorded at his own cost.

(b) Process of foreclosure and sale by the mortgage bank in the event of non-payment may be extended.

(c) All transactions through the land mortgage and agricultural banks should be free from stamp duty. The working capital of the banks may be derived from all the sources described in the questionnaire. If the debentures carry a Government guarantee, the bank will work on a sounder basis and there would be more deposits also.

To guard against such loss the Government should have supervision and control as in the case of co-operative institutions.

5. I have no materials to make an estimate of existing indebtedness of the agricultural classes in this district. From what I know I may state that about 25 per cent of the agricultural classes are not indebted though they cannot be classed as people above needs. They may not have sufficient means to effect improved methods of cultivation, to meet famine and other kinds of distresses and educate children.

The debts are mostly due to professional money-lenders. The rates of interest charged range from 12 per cent to 36 per cent. The method for calculation of interest includes compounding the interest also as stated above compelling the ryot to sell his produce at a lower rate. The enforcement of the payment of the debt is by the sale of land.

Yes; efficient farmers are reduced to tenants and the lands are passing into the hands of creditors, and the tenants at will are turned out as coolies—locally or by emigration agents.

Yes—this will result in the indifference of the cultivator in the improvement of the land in an efficient and better manner.

6. Rice milling and sugar refineries are now in the hands of capitalists. Dairy-farming is unknown. Gur-making and garden produces are restricted to some particular localities. Cotton ginneries do not exist in this district. Hand-spinning has been eclipsed long ago by mill production of yarn and cloth.

Dairy-farming is being carried on by a certain class of people in a most unscientific and unsystematic and unclean method. (I mean Gandu community.) This can be improved by organized associations. Hand-spinning may be revived. Sugar refineries must be made a home industry by introducing small and clean machinery. In order to develop the spirit of industry among the agricultural classes, I would like to introduce in all the village schools various kinds of industries such as carpentry, smithy, hand-spinning, tanning, brick-making, tile-making, weaving and such other industries as would be suitable to various localities. Working capital should be raised by co-operative system assisted financially by the central bank and by Government with the staff to supervise and organize and market the produce of places where the production is more than local needs.

6-A. In places where forests exist the manufacture of wood pulp must be introduced in such a form that each individual can produce some pulp out of his own exertion and thus earn. Industries such as soap-making, coir-making, cane works and embroidery may also be introduced.

7. To increase the capital in the co-operative institutions by shares, I propose to exempt the institutions from the operation of the Income-tax Act.

The co-operative banks look more to the benefit of their constituents whereas the other banks care more for the greater benefit of their shareholders. Consequently, their relationship must naturally be and is in fact a little strained.

The work of the co-operative banks has not developed thus far as to compete with that of joint stock banks.

II.—Indigenous banking.

1. The indigenous banker lends money to all classes of men on pledge of jewels and on pledge of grains, jute and other products of a commercial nature. He also accommodates the constituents of the Imperial and other Banks at the time of the renewal of bills of demand, at a very high rate of interest, i.e., one anna per day per hundred rupees. They also transact in hundis whose rate of exchange is less than that of other banks. Further the formalities are less than in the Imperial and other Banks.

2. As far as I understand the indigenous banker does not assist in financing agriculture and trade and industry.

3. There is no organization among most of the indigenous banks. The capitalists are individuals. The volume of their business depends upon their financial capacities and their expenses are far less. The relationship between the indigenous banks is practically nil. The Imperial and other Banks constitute as financing agents to some extent to the indigenous bankers.

6. The rates of interest the agricultural community has to pay to the indigenous banker vary from 12 per cent to 36 per cent either in kind or cash. The rates would come down when co-operative institutions develop and provide more and better facilities to the borrowing classes and take the place of indigenous money-lenders. Surely the reduction of rates in interest helps the agricultural community to spend more on agricultural improvements and in the standard of their living.

7. Yes—but the people are compelled to go to him. The banks are protected by general laws. If these indigenous banks are systematised and worked on broad basis, legal facilities can be extended.

The dealings of this class of banks with their clients are not sound.

To say briefly the existing defects, the bankers care to get as much profit as possible and consequently the conveniences and prosperities of their clients are not consulted. The only remedy is to develop agricultural, industrial and co-operative banks with the help and the control of the Government.

8. I cannot think of any suggestion or recommendation for the improvement of the private banks so as they may be more serviceable to the community.

9. I think there would be a net return of 9 per cent after making allowances for charges, legal expenses and losses through defaulters.

10. They are not able to meet the demands on account of the several reasons mentioned in the question.

11. Indigenous banking system cannot be linked with the central money market and provincial capitals unless such banks are systematised, organized and brought under control of special law and sufficient guarantee is given to the capital of the indigenous bankers. Yes: a joint-stock bank or a branch of the central reserve bank or a local bank with a local directorate may be established in each district with which the indigenous banking system may be connected. The banks so constituted must compete with indigenous bankers so that a check may be placed on their unrestricted dealings. These banks must be popularized.

12. No. In this district there is no money which will be kept idle with the capitalists.

III.—Investment habit and attraction of capital.

1. Owing to the poverty of the masses of India savings are practically nil for the purpose of investment.

3. Farmers do lend money to fellow agriculturists on more favourable terms than the ordinary money-lender. They invest surplus money if any in extending their landed property and in the purchase of gold.

5. Yes. The habit of investment in banks is very slow owing to want of education, confidence and enterprise.

The Development Department must engage establishments to educate people to invest their savings in productive undertakings but I am afraid the imposition of the income and professional taxes would scare the ryots away from such investments.

The Imperial Bank of India to my knowledge is more helpful to the local merchants than to agricultural classes.

**Written evidence of M.R.Ry. A. S. PAIS Avargal, B.A.,
Revenue Divisional Officer, Mangalore.**

I.—Agricultural credit and credit facilities for small industries.

1. Agriculturists in this district generally obtain finance for expenses during cultivation and for other specific needs either from professional money-lenders or from merchants dealing with the articles produced by the agriculturists. If they obtain money from the money-lenders, the rate of interest is never less than 12½ per cent and it is sometimes as high as 25 per cent. What they obtain from the money-lenders is however not money but rice and the borrower has to return 1½ muras of rice at the "Shashti Vaida," i.e., at the time of the next Subrahmanya Shashti festival for every mura borrowed by him. The rate for such borrowing is much higher than 25 per cent as the period of the loan is less than a year. There are instances in which standing crops are mortgaged and subsequently harvested by the borrower also.

When money is borrowed from merchants, a rate of not less than 12½ per cent is charged and there is always a further agreement that the produce will be supplied to the merchant at a fixed rate which is always less than the market rate.

For capital and permanent improvements the agriculturists generally borrow from Government under the Land Improvement Loans Act or the Agriculturists Loans Act or from co-operative societies.

2. The produce is generally supplied to wholesale merchants and commission agents in towns. The produce is not generally sold at once to the merchants and commission agents. The moment the produce is delivered the agriculturists will obtain an advance from the merchant or agent for which interest will be charged till the produce is finally sold and the accounts settled.

Some co-operative societies of producers and agriculturists were formed in this district but they have been failures generally.

3. Paddy is the chief crop in this district and there are three varieties of paddy lands, i.e., Bail, Majal or Mogaru and Bettu. The first are double crop lands, the second are generally single crop with an occasional dry crop and the third are single crop depending on rain alone. The price depends on yields. Paddy fields yielding seven or eight muras of rice fetch Rs. 1,000 now. The best bail field will produce about 20 to 25 muras of rice per acre.

There are very few sales of land for arrears of land revenue in this district and such sales do not as a rule fetch the usual market value of the land. Sale by court decree also does not generally fetch the usual market value probably on account of the litigation involved.

4. The Bunts and Jains who are governed by the Aliyasanthana Law of Succession are the chief land-owning classes in this district. A member of a family in these communities is not entitled to have his share in the family property partitioned or alienated. All the members of the family have to join to partition or to alienate or mortgage the family property and, as there are always feuds in families, it is difficult to raise loans by mortgage of family property.

**Written evidence of M.R. Ry. G. DHARMA RAO Avargal,
Secretary, the Ganjam District Co-operative Banking Union
Limited, Berhampur.**

1.—Agricultural credit and credit facilities for small industries.

1. *The need, nature and sources of agricultural credit.*—The agricultural progress depends on a sound system of securing capital and credit. The agricultural credit—credit granted for the promotion of any line of agriculture—is mainly of two varieties: (1) the short-term, and (2) the long-term credit. The capital needed for the carrying on of agriculture as a profession, to meet the daily needs of husbandry, such as cultivation expenses, cost of ordinary repairs, value of seeds and fertilizers and so forth is supplied by what is known as short-term credit. This form of credit is unsuited to finance farmers for such purposes as liquidating old debts, effecting permanent improvements on their holdings, converting an uneconomic holding into an economically profitable one by sinking wells or executing other costly works, purchasing new lands and so forth. So each time the agriculturist needs credit for any of the above purposes he has to approach

- (1) Professional money-lenders or
- (2) Merchants and dealers or
- (3) The Imperial Bank of India or
- (4) A co-operative society or
- (5) The Government.

Agricultural indebtedness and the attempt to remedy the indebtedness.—From time immemorial agriculturists are suffering from indebtedness. Various causes render the agriculturists indebted. Creditors often exercise control over the borrower to the degradation of the latter. The Government also take to advance loans on favourable terms to the agriculturists under the Land Improvement Loans Act and the Agriculturists Loans Act. Such help is usually intended for the benefit of the substantial class of cultivators; hence,

- (1) It never touched the cultivators of lower status.
- (2) It had no educative influence.
- (3) It never laid emphasis on the moral factor by making one responsible for all obligations.

The object of the Indian Takavi Act is not realized. Under this Act Government has had to deal with the ryots through its officers all of whom do not possess the same degree of capacity and honesty. The machinery of Government is such that without some elaborate enquiry the loan cannot be passed. There was therefore inevitable delay and the money did not reach the ryot's hands at the very moment he wanted it. He was also not able to get the full value of the loan in many cases. Hence the ryot continued to be ridden over by the local money-lender.

Joint-stock companies and agricultural indebtedness.—For the following reasons the joint-stock companies failed to cure the agricultural indebtedness:—

- (1) Joint-stock companies are generally situated at a considerable distance from the villages. The communications are often difficult and expensive.
- (2) Being at a distance, they could not accept the property of the villagers as security.
- (3) The loans of the joint-stock company are often repayable at call. The villager cannot be expected to pay money whenever he is called upon to do so. He has got a season when he can clear his debts and not at all times. Hence this kind of loan never suits the villager. It is often detrimental to his interest.

Owing to these causes joint-stock companies could not be of any use to villagers. Therefore loans given under the Land Improvement Loans Act, the Agriculturists Loans Act and loans from joint-stock companies never help poor ryots, whose economic interests co-operative societies are now trying to better.

Co-operative banks and agricultural indebtedness.—Short-term accommodation is an absolute and urgent necessity for every one connected with agriculture or other industries, for without it such industries cannot be carried on. Such credit can be cleared out out of the products of each industry. It must flow as a continuous stream so long as the industry is carried on. It can be said that co-operative banks are able, to a certain extent in villages where co-operative societies exist, to accommodate the short-term requirements of the agriculturists.

Long-term loans are intended to supply the fixed capital required in any undertaking and can be repaid by small instalments spread over a long period. Hence loans given for that purpose by co-operative banks should be for very much longer periods, not more than ten years, and to enable such loans to be given co-operative credit societies should themselves be able to borrow money repayable in comparatively long periods and should be allowed to repay such loans in dribbles within the period contracted for. In tackling this problem, one has to bear in mind that the existing co-operative financing machinery is not suited to undertake this work in any appreciable scale and better arrangements require to be devised. The system of creating a suitable financing machinery or arrangements for giving long-term accommodation for the purposes of purchase of land, removal of prior indebtedness, making permanent improvements to land or irrigation by sinking large sums of money, is inevitable.

The results of the non-supply of the required credit.—Owing to the disadvantages enumerated above, the co-operative society is not helpful to the desired extent in accommodating credit facilities. It is also not correct to say that those who joined the co-operative movement do not even now draw their credit from the money-lender or from the trader who regulates every transaction to his best advantage. Unfortunately such capitalists are few in number, their resources are limited and there is very little competition among them. As a result the capitalists exercise an undue influence over the producers and dictate their own terms. The agriculturist is forced to avail himself of this kind of help which is after all financially ruinous and he becomes a prey to such capitalists. He is outwitted by the capitalist who, being a local man, with the influence of his position keeps a tight grip over the transaction and invariably gets hold of the produce at the time of harvest leaving very little for the producer to maintain himself till the next harvest. The producer becomes a borrower and is kept permanently under the thumb of the money-lender or trader or both. The misfortune of the agriculturist is that his misery gets deepened by causes beyond his control as failure of rain, infection of pests and diseases of cattle.

Rate of interest prevalent.—The prevailing rate of interest on mortgage loans is 12 to 18 per cent and grain interest 25 to 30 per cent and on demand promissory notes the minimum rate is 12 per cent per annum. We have to include also the other charges incurred regarding a debt, as expenses in the registration of the mortgage deed, etc. It has to be noted, of course, that rates vary according to the economic condition of the area and the credit of the individual. But the rate of interest charged on loans by co-operative societies is uniform throughout, at the rate of 8½ per cent per annum.

Credit accommodation given by sowcar, commercial bank, Government and co-operative banks, compared.—The credit given by a sowcar or by a commercial bank will not be advantageous unless the borrower is prepared to repay loan in full and at a time when the creditor wants it. A sowcar's lending creates a personal element, where the distinction between the borrower and the lender is brought out prominently. Such a feeling however is less keenly felt in the case of borrowing from a commercial bank. The credit given by a sowcar or by a company concern is not necessarily intended for the improvement of the borrower, whereas a co-operative credit society has only that in view. The credit given by the Government is less harmful but it ruins the cultivation of the spirit of self-reliance and self-help and it does not obliterate the distinction between a borrower and a lender. The Government has not the adequate machinery with the local knowledge to arrange for the recovery from the borrower of the loan so as to suit his convenience. In a co-operative credit society every borrower works to secure credit not only for himself, but for the society itself and for his brother members. Such a spirit is never generated when he gets credit from the

Government even though he may get it at low rates of interest and repayable by easy instalments spread over a much longer period. The credit to be obtained in a co-operative society is therefore decidedly the best form.

Nature of security.—The agriculturists are steeped in debts for various causes. Still they have a command of vast potential resources which can be capitalized if suitably organized. They own valuable lands which are valuable not only as regards the sale value, but also as regards their productive character. Such lands ought to produce adequate wealth if agricultural operations are properly conducted. The fact is clear that the agriculturists are very much in debt because they have not adopted scientific methods of agriculture.

The basis of credit in a co-operative society is made up of—

- (1) Material assets—Property owned by members.
- (2) Character and capacity of production of the members.

The first is a general form of security on which the required credit accommodation can be ordinarily raised. The low economic position of the agriculturist can be traced to very many disintegrating influences at work in India's rural life among which the important is the purely individualistic conception of the agriculturist.

2. *Joint purchase and sale on co-operative lines.*—Credit no doubt plays a chief part in agricultural development though there are many more aspects of development which can be secured by the play of mutual trust and joint action. One of such activities is joint loan. Much benefit will accrue to the members of rural societies by the joint purchase of agricultural and domestic requirements of the members and the joint sale of the produce of the members. Credit is of course a common thread which runs through every transaction. Purchases of food-grains and pulses made soon after the harvest are very advantageous. Traders purchase them and sell them at much higher rates during the course of the year and before the next harvest season. The traders always secure wide margin. The traders' profit indicates the amount of loss sustained by the producers and the consumers. The agriculturists' produce is usually absorbed by the traders. The poor ryot is unable to hold off his produce till the price rises. But if the credit society gives the ryot his needed credit accommodation, he can sell his produce when the market is favourable and he can combine with others, pool the produce and sell it at more advantageous terms.

Marketing produce.—Facilities for the marketing of produce are at present rare. Owing to the absence of combination among the producers, the producer pays heavily for transporting the produce to the market. He cannot standardize the price of produce. He has no adequate knowledge of the wholesale market and its fluctuations. His habits are generally conservative.

The produce of the agriculturists may be classed as below :—

- (1) Produce for consumption in local markets either in its raw condition or after conversion in a marketable form.
- (2) Produce exported to foreign markets.

Sales of such produce are usually effected in small dribbles by the agriculturists to small traders who attend weekly shandies or go about the country and purchase the produce in small quantities. The small traders sell the produce so collected to bigger traders in towns in the vicinity and the latter again send it on to the wholesale merchants in important towns and in the Presidency town. On some occasions the wholesale merchants send out their agents to buy the produce in shandies soon after harvest or from smaller traders in important villages. It is a fact that the produce passes through four or five small middlemen before it reaches the wholesale merchants. The middlemen expect to pocket a certain amount of commission or profit and consequently offer low prices to the producers. The producers thus get much lower rates than what the wholesale merchants would have given for the producers.

Remedies suggested for favourable marketing.—Success in trade operations is dependent upon the following :—

- (1) The education of the producers to make them realize the disastrous system under which they at present sell their produce at low rates to the traders,

(2) An intense desire accompanied by strength of will to end the existing system of sale and to organise a co-operative combination for the sale of their produce advantageously.

(3) The gradual strengthening of the co-operative organisation by eliminating the middlemen at each step.

Precautions—Co-operative society undertaking sale of agricultural produce.—A co-operative organization has to pay attention to the following points when undertaking the sale of agricultural produce :—

(1) Produce of uniform quantity should be secured.

(2) The producers should be made to supply the produce without practising adulteration.

(3) The produce should be graded according to quantity.

(4) The produce should be carefully stocked and preserved in a good condition.

(5) Adequate arrangements should be made to be in touch with the prices prevailing in the wholesale markets.

(6) The organization must select the best market for the disposal of each kind of produce.

(7) Suitable arrangements must be made to stock the collected produce in suitable places to be put on the wholesale market when the prices are favourable.

(8) Responsible men with sufficient knowledge have to be secured to decide the time when the produce should be sold in the wholesale market.

Future co-operative banking—Suggestions.—This may be considered under each head ; primary rural societies, urban banks, central banks and provincial banks.

Primary rural societies and urban banks.—By developing the instinct of banking among the rural classes it needs no saying that the productive capital of the country will considerably increase and commercial prosperity will follow. A co-operative society must accommodate its members with short-term as well as long-term credit. As the central banks are situated at a distance and cannot serve the societies easily and readily to receive their remittances and meet their demands, the societies will do well to seek the help of the urban societies which may serve as banks of remittances between co-operative societies in villages and central banks. A village society may pay all collections in the urban society in current accounts for credit of their accounts with the central bank and draw by cheque whenever necessary which will also be negotiated by urban societies for the members of rural societies. The urban societies and central banks may adjust their accounts by means of drafts or cheques.

Central banks.—These should undertake to do all kinds of banking for their customers. They cannot ask their customers to come to them for one kind of service and drive them to the joint-stock banks for other kinds of service. Discounting bills of exchange may involve greater risks and troubles than ordinary loans but if a central bank does not do it direct to the customers but through co-operative societies there seems to be very little risk. As co-operative trade increases, primary societies may discount bills for members who of course must be selected with a great deal of caution. The bills may be rediscounted by central co-operative banks. Co-operative banks receive deposits generally for short periods and as they have to cater to the needs of primary societies by way of long-term loans, co-operative debentures may be floated and the Government may stretch its helping hand either direct or through the Imperial Bank of India in the supply of long-term credit.

Provincial bank.—It should provide adequate opportunities for central banks to direct funds—short and long term—from its funds or by borrowing from the Imperial Bank of India or from the Local Self-Government.

Aims of development on the above lines.—Every member of a family will be a co-operator. Every village or hamlet will have one or more co-operative societies. Every urban area will have one or more banks connecting the primary societies with central banks—which will be one or more in each district and managed by a majority of societies.

It is therefore observed that when we develop commercially through the medium of co-operation, we shall be bettering the condition economically. As yet the development of co-operative banking is in its infancy, it has not

even touched the fringe of rural indebtedness. More has yet to be done if the agriculturist population has got to be provided with requisite credit facilities. The total indebtedness of the agriculturist is yet to be found out. Ways and means have to be found out for easing the dead weight of indebtedness. The town dwellers have also to be provided with easy credit. The small salary earner, the day labourer, the artisan, the petty trader and other dwellers in towns have to be provided with credit facilities. There is the question of housing problem. Every town of whatever dimensions is finding it difficult to meet the call for more houses. All classes of people are suffering from want of housing facilities. The cottage industries have to be organized to provide additional sources of income to keep the agriculturists engaged during the times of enforced idleness. The sale of goods manufactured under cottage industries has to be provided with marketing facilities. All these need funds and it is the duty of the co-operative banks to mobilize the finances required either locally or otherwise or from the Government. Then there is the fruitful field of wholesale trade in the produce of the land for export purposes. The co-operative banks can lend a helping hand in organizing for this branch of trade also. The country is crying for such development. The field is vast and virgin.

4. *Land mortgage banks.*—There are no such banks in this district for the present. The needs for such banks are—

(1) For the removal of such indebtedness as can be cleared by the co-operators out of their future savings.

(2) For the sinking of fixed capital in the purchase of land for farmsteads and houses.

(3) In the permanent improvement of land in cases where the extra income accruing to the borrower out of the investment is expected to extinguish such debt in a definite number of years.

Working of the land mortgage banks.—Such banks can raise long-term credit in the shape of debentures on the collective value or security of many individual mortgages. Such long-term credit should be given only in cases where the annual savings are sufficient to repay the principal and interest due within the period for which debentures are issued. The margin of profit in any land mortgage bank should be kept low because of the fact that it will deal in large sums of money with a small amount of paid-up share capital and of the fact that the borrowers should be given such credit at comparatively low rates. Investments in these concerns should be exempted from all taxes. Facilities must be available for prompt recoveries of dues on such mortgage debts. The institution must aspire to get legislative power to sell such pledged property without resort to courts, civil or revenue. These institutions shall have a financially responsible agency or arrangement—

(1) For proper valuation of land mortgaged.

(2) For proper use of such long-term loans for specified productive purposes.

(3) For watching the character of the borrowers and earning power.

(4) For the due recovery of the instalments of principal and interest on due dates from the borrower.

The period for which debentures will be issued should not be less than 12 and more than 20 years. The area of operation of the land mortgage bank should be restricted to a group of villages within six or seven miles from the headquarters of the bank. Loans should not exceed 50 per cent of the market value of the land mortgaged.

State aid.—The State should contribute to the cost of inspection and the valuation of land, investigating titles and assessing the credit of the borrowers.

**Written evidence of Janab SAYED AMER ALLEY SAHIB
Bahadur, Secretary, the Berhampur Co-operative
Federation, Berhampur.**

1.—Agricultural credit and credit facilities for small industries.

1. (a) The ryot is borrowing from a co-operative society if there is one or from a village sowcar for cultivation expenses.

(b) The ryot is borrowing from the Revenue Department or from rich sowcars in the locality or from a co-operative society on the mortgage of his immovable property.

(c) For paying land revenue and for special expenses during the failure of monsoon, he is borrowing from one of the abovementioned sources.

The rate of interest the sowcar charges on demand promissory notes is ranging between 18 to 25 per cent. This is spent away for short-term purposes such as cultivation expenses, etc. The ryots also borrow and repay in kind. Here the rate of interest is about 33 per cent when calculated in money. For all short-term loans and loans granted for cultivation expenses by a village sowcar he generally puts in a clause that the borrower has to sell his produce at favourable rates to the lender, that is, to be more clear, the sowcar lends and takes in kind.

The rate of interest in a co-operative society in this district is only 9½ per cent. It is granted on two sureties or on the mortgage of the immovable property of the borrower or on the produce or crop without stipulating any penal clauses, detrimental to the interests of the borrower.

The Government is granting "Takavi" loans to the ryots. The Imperial Bank has confined its dealings only to merchants and capitalists because these two agencies only are stocking the village produce. The co-operative banks where they exist are mostly accommodating the ryots for only cultivation and other minor purposes and they are not able to meet all the demands required by the ryot for long-term purposes such as improvements to land, repaying old debts, etc. Money-lenders and merchants as well readily accommodate the ryots whenever there is a demand from them. They go to him even now freely, get the money readily into their hands, even though they know they are borrowing at a disadvantage. Still the merchants and the money-lenders are popular in the villages because they readily lend money, without even considering the repaying capacity of the borrower. The merchant or money-lender is satisfied if there is surety for the loan.

I do not know the estimate of the capital required for the various purposes in this district.

The village sowcar, who will always be in the village, has ready information regarding his customers and their wants and his rate of interest is so high that he can afford to recoup his losses in some cases. Now organized associations are attempting to do away with these money-lenders and lend money on favourable terms to the ryots through co-operative agencies. It is the central bank that is financing these rural societies and it depends for repayment on the unlimited liability of the members. Even this central institution is feeling nervous to lend money to the village societies freely because there is nothing to prevent a member of the society from alienating his properties without the knowledge of others. Since the central institution is intended for the benefit of ryots, there should be some rules framed for the prevention of alienating the properties of the member of a society. If a member of a rural co-operative society wants to alienate his property, he should be made to inform the panchayat and obtain its sanction for alienation. The purchaser of the member's property also must state in his bond a clause that if the person from whom he purchased the land happens to be a borrower of a co-operative society and if the society sustains a loss on account of this transaction he would make good the loss. I propose this to be enacted because the abnormal overdues may prove to be a great set-back to the movement. The absence of proper safeguards to

the money of the central bank that is invested in village societies may also prove to be the same. The central bank lends only considering the property qualifications of the members which can be alienated at any time by any member or all the members of a society. Considering the very heavy overdues that are pending realisation all over the Presidency, I think it is highly desirable in the interests of the movement that the abovementioned safeguards should be incorporated in the Act before taking any active steps for the recovery of the overdues. If this is done the bad characters of a society will not be able to do any harm to its good members because while enforcing the unlimited liability basis the bad members are let off without being punished and the good members are made to pay for the bad members. It is universal that one who commits a fault should be punished, whereas in a co-operative society it is vice versa. Time has come to think that there are some wicked men who have joined in the movement and they should not be let off without being punished when they ruin a society. The remedy for all this, I think, is to so frame the Act that when a member wants to alienate his property he should be made to pay all his dues to the society and then alienate. If this were to come into force there is scope for the movement to be run on a sound basis.

Now there is no co-ordination among the various credit agencies including the Government. All the agencies can join freely and work on sound lines if the above suggestion is put into force.

2. It is the big merchants and capitalists that are storing the produce of the country and wherever necessary the Imperial Bank is accommodating them with money. Here it is not out of place to mention that the merchants are also undergoing many difficulties for transporting them from country parts to market places and there is also great risk in this enterprise. It is an impossible task to think of organizing co-operative associations for marketing the produce of all the ryots in this district. But associations are to be organized in all important market places for marketing the produce of the ryots who are members of a co-operative society. Every help and facility should be given by Government to such society organized for selling the produce of these loan and sales societies direct to some recognized firms, inland or foreign. If this is not done all the produce that is stored in a loan and sale society would go again to the very merchant who is a rival in the field. The Government should also come to its assistance for finding a market for the produce pledged in a loan and sale society. I find there is no use in organizing loan and sale societies unless some recognized firms are made to receive the raw produce.

The internal remittances are not at all satisfactory. I think it is advisable to equalize money order commissions and insurance charges and authorize every sub-treasury to receive co-operative money for transmission to central banks or to societies. A small fee may be levied for undertaking this business by the Government but the fee should be half the fees incurred by postal insurance.

4. There are no land mortgage banks in this district; it is desirable to have one.

There is a fall in the rate of interest charged by merchants where co-operative societies exist in the neighbourhood. There is no use in giving every facility to the ryot for his betterment unless the earning capacity of the ryot is increased and his extravagant expenditure during social functions is cut short. This can be done by opening schools in every village and connecting villages by a net work of roads.

6. The only industries of this district are sugar and silk weaving. The weaving class should be well instructed by an expert for the production of such finished goods as would find easy market not only in local markets but also in other foreign markets. Ganjam was once a jaggery and sugar producing district. Ever since the agricultural farm was started at Anakapalle (Vizagapatam district) through the help of the Agricultural Department, that industry improved in the Vizagapatam district. It is necessary that few subordinate officers should be sent here for reviving sugarcane crop in this district following the up-to-date methods for the revival of the dying industry. The two central co-operative institutions would, I think, readily lend money. There is also one special industry, the hemp industry (Gopalpur hemp) which requires investigation by experts for its revival.

7. It is the central bank that is lending money to the village societies and the central bank is allowed overdraft at the Imperial Bank of India. The central bank is not able to meet all the demands to grant long-term loans to societies and it is hardly able to meet short-term loans. The maximum borrowing power of the central bank should be increased from ten to twenty times its paid-up share capital plus reserve fund. Unless this is done it will be impossible for the central bank to meet all the demands of loan and sale societies and for granting loans on the pledge of produce. If this is not done there would be dead-lock in the working of the central banks, because the bank has to grant loans without considering the paid-up share capital of the society when it borrows on the pledge of produce.

. *III.—Investment habit and attraction of capital.*

The Imperial Bank must consider the central banks as their own branches, give all credit facilities to them by removing the overdraft system. It is only then that the money invested in the Imperial Bank will be utilized for the benefit of the villager through the central bank.

Written evidence of M.R. Ry. R. S. SUBRAHMANYA AYYAR
Avargal, Pleader, Gobichettipalayam.

I.—Agricultural credit and credit facilities for small industries.

I. (a) For the expenses during cultivation the agriculturist expects finance from the indigenous banks, the money-lenders and in recent years from the co-operative banks on a much larger scale.

(b) The agriculturist rarely embarks on a scheme of permanent improvement without having at least the initial outlay in cash with him. Subsequently, because he began the work without a plan and estimate he finds himself under a necessity to borrow for the completion of the work, e.g., digging a well. He looks upon the agencies mentioned in I (a) for help.

(c) Same as I (a).

The Government help the agriculturists only in their attempts to effect permanent improvements, under the Land Improvement Loans Act. But it appears to me that a small minority alone reap the entire benefit for two reasons: (1) the agriculturist being under other obligations to others, finds it incumbent upon him to pay them in preference to the furtherance of the object for which alone the loan was got and (2) there is a slackness in the method of supervision and even if supervised later, it is like locking the stable after the horse is stolen and ends only in collecting the amount.

Co-operative banks serve a real need of the agriculturist inasmuch as they cater to serve him for his cultivation expenses, for his effecting permanent improvements, and for helping him in years of failure of the monsoon. The part played by co-operative banks, etc., will be found discussed later.

Indigenous banks and bankers and professional money-lenders do help the agriculturist in their own way, but not to any considerable extent. The main reason is that most of them care for their own interests more than the interests of the agriculturist. The real agriculturist requires only small sums for bona fide agricultural purposes and will return the amount soon after the harvest; but this purpose and process will not suit the money-lender, for he would prefer to keep the outstandings for a longer period of time to payments by instalments or after short intervals.

Merchants and dealers form a separate class by themselves. These people do not lend for any other agricultural operation of the agriculturist except for harvesting. The mandi merchants may properly be classified under this head. On the assurance mainly oral, that the agriculturist will sell the produce on his land to the dealer soon after the harvest, he lends to the agriculturist about a month prior to the harvest time of the particular crop and gets many advantages and immense profit.

Defects in the present system and suggestions for remedies.—I confine myself to remarks on the co-operative system alone under this heading.

It is necessary to briefly outline the method of lending in vogue. So far as urban banks are concerned (except district urban banks), any member of the bank possessing the requisite number of shares applies for a loan, the application is placed before a meeting of the directors and if sanctioned by them he gets the amount. The entire course takes about a week at the most. The directors take care to fix the period for repayment according to the time when the agriculturist is expected to get his crop. This is by the way.

My experience tells me that there is always enough money forthcoming by way of deposits to the bank particularly when the bank gets disinterested and capable men to manage it. The Erode Urban Bank, I know, had a regular flow of money so much so the President asked me (as Secretary of the Urban Bank, Gobichettipalayam) whether I could get any deposits from there. Many Government officials of the Gazetted Officers' grade are now

monopolizing urban banks. Non-official public institutions like the Mahajana School, Erode, and the Diamond Jubilee High School, Gobichettipalayam, have framed rules according to which all their moneys are to be found deposited in one or other of the deposits of the respective urban banks. So the banks do not suffer for want of funds. But having got the funds, the banks suffer from the want of the requisite jurisdiction for distributing the amounts, as the jurisdiction of the urban banks is very limited. I would suggest a wider jurisdiction for every urban bank. *How is that to be obtained?* One method is to include the neighbouring villages within the jurisdiction of the bank. If this is done, there is the difficulty of getting proper men to represent the villages. If there are proper men, then there will not be enough seats in the directorate to represent each village and if we seek to increase the number of seats, the directorate will become an unwieldy body. While on the other hand if there are not enough seats, the bank cannot serve every village efficiently consistently with its own safety. Therefore this method is not conducive either to the welfare of the bank or to the convenience of the villagers. Another method is to constitute a village society of the unlimited type in each village and to empower the urban bank to lend to such of them as are near by the urban bank and to as many of them as the urban bank undertakes to serve. This method is open to the objection that the urban bank is usurping the functions of the central bank. It is stated that the central bank's work will fall in ~~case~~ the other urban banks begin to finance even some of the rural societies. Some even go to the length of stating that it is unco-operative in principle. Examining these grounds, I may at once dismiss the last objection first, viz., that the suggestion is unco-operative. I do not fancy much of this. What does it matter which bank finances any rural society, provided of course that it is a co-operative bank. Regarding the objection that the central bank's work will suffer if this method is to be adopted, it may be safely stated that if the central banks care to scrutinize the loan applications of societies with greater care and less delay, then certainly the work of the central banks will not suffer, for they have a very wide field in spite of the fact that some four or five societies are to be tacked on to each of the few urban banks in a district. The same answer holds good regarding the objections of the usurpation of functions. After all, central urban banks are for serving societies and through them the agriculturist, but the agriculturist does not live to feed central banks. If this is borne in mind, and if alone everyone is to put this principle into practice, there can be no objection for the taluk urban banks (as distinguished from the district urban bank or the central bank) to finance some at least of the rural societies. It may also be urged as an objection that there will be difficulties in arranging for supervision; for the present supervising unions are financed mainly by the district urban bank either through the district federation or directly. But it is submitted that the taluk urban banks may also be directed to pay for supervision at the same rate and there will not be any difficulty for the supervising unions to supervise them in the same manner. I mean there is no harm in the fact that the financing bank is a district urban bank. Even if there is any slackness, I am sure that the taluk urban banks, being near by the societies, will care to undertake the supervision or to supervise directly, for there is no clash of jurisdiction regarding supervision.

Secondly.—Taluk urban banks may also be authorized to lend to non-members on the security of their deposits. This will be an incentive for the agriculturist to save and deposit in urban banks.

Thirdly.—The rule of limitation for the enforcement of a loan or decree in civil courts either by suit or by execution may be amended by providing a longer period for the recovery by co-operative banks just in the same manner as the recovery of the dues of the Government. The main reason is that the management of a bank changes very often and it is difficult to locate responsibility for the default, if any claim is allowed to be time-barred. All the directors are honorary men with no emoluments attached to their office and to mulct them with penalty for such defaults seems too onerous.

Statutory requisite to keep 25 per cent of the deposits for fluid resource purposes may be reduced to 12½ per cent.

I have next to detail how the district urban banks finance rural societies of the unlimited type with a view to locate the defects and suggest remedies. Most of the members and many of the governing body members of a rural

society know only to affix their signatures, if they are at all literate. They are realizing the advantages of the co-operative system only slowly and considerably slower than the urban population. Therefore, for them to fill up the loan applications to be sent up to the district urban bank is like cleansing the Aegean stables. While the member finds the numbers of questions found in the loan application too many, the department and the district urban bank find them too limited. Therefore the supervisor of the union goes and prepares the application. The union then sits in judgment and, if it is recommended, it leaves the office of the union in duplicate, one to the department and another to the district urban bank. A fortnight on an average will be the minimum time required. The departmental recommendation requires some further time and it is only thereafter that the executive of the district urban bank sanctions the loan. The grant has to take the same way back to reach the hands of the societies concerned, for it to fill up the bond and get the remittance still later. The whole course takes not less than two months. No wonder therefore that the agriculturist exclaims in disgust " *செய்யாமைக்கான பணம் கேட்டால் குறைந்த பணம் மட்டும்* " which rendered into English means "if a member asks a loan for his marriage, his legal representatives get the amount for defraying the expenses of his funeral." Is not this circumstance alone sufficient to rouse the co-operator to ask for a more speedy agency to serve the agriculturist of a village? On the other hand, the agriculturist has only to go and ask for a loan from the money-lender and the loan is given. No unpalatable question is put, nothing is asked, but he is received with open hands and the money is given. Let me not be misunderstood as blaming any institution or the department. I mean only that the delay cannot be helped as the agencies are at present. To suggest a remedy requires the careful and considered opinion of a number of experienced co-operators, and I therefore proceed to suggest a remedy with the greatest reluctance.

What is the remedy? The distance between the financing bank and the rural co-operative society, in the vast majority of cases is overwhelmingly great and that perhaps is the one reason for the delay. It is unfortunate that co-operation has not progressed one step farther in the natural course of its evolution. The district urban bank has been doing the same work it did a decade ago though in a more intensified form. It gets its six-figure profits and is satisfied; its only ambition is to get a higher amount for the next year. It is high time for the district urban bank to divide its work and give it to the taluk urban banks and content itself with a position similar to the M.C.U.B. The taluk urban banks should have a two-fold function—(1) the process of lending to its members, (2) the process of lending to the societies of the taluk. If this system is to be adopted, the taluk urban bank can function more effectively and with considerably less delay than the district urban bank. By-laws can be framed to suit our purpose and to suit the ends mentioned above.

A question may be asked as to whether the two remedies suggested by me, viz., (1) to allow taluk urban banks to lend to some of the rural societies adjoining the taluk centre and (2) to invest taluk urban banks with the power to lend to all the rural societies in the taluk, are not inconsistent. I submit they are not. The first method may be put into practice immediately and then the second may be brought into force. This system is well worth a trial, at least in some districts.

A question may be asked and it may be stated that the agriculturist may as well apply for his loan sufficiently early for him to get the loan in time. Even educated people and business people fail to make correct forecasts and the agriculturist is neither educated nor businesslike and as such does not even think of the future. He mostly pursues a drifting policy and, when the necessity forces him, he at once goes to the proper money-lender for a loan and finds himself helpless when an exorbitant rate of interest is demanded. This condition and mentality has to be reckoned with when we desire to help him.

There are other methods of helping the agriculturist. The co-operator may take upon himself the role of the money-lender, the supplier of manure, the consumer of the produce, etc. But it requires proper human element for managing the societies started. The agriculturist may be supplied with manure and for the cost of it a bond may be taken from him: the amount itself may be collected from him by taking the produce from him for sale. What I mean to say is that the credit given to the agriculturist by the

co-operative institutions is neither timely nor adequate nor sufficient. In other words, in effect it only comes to this, that the co-operative institutions co-operate with the other agencies and the professional money-lender to impoverish the agriculturist though at a slower pace. If only the co-operative institutions undertake a fiduciary responsibility and begin to gauge and serve the agriculturist by lending him as and when he feels the necessity for money, the other money-lending concerns have no place; if they purport to continue lending at the rate at which they are doing now, such of them alone as are prepared to lower their rate to a level with the co-operative institutions can thrive. This is perhaps an ideal, but it is possible to work up to it having it as an ideal.

Before I proceed to the next subject, I have to deal with the rate of lending by the several agencies. The co-operative banks lend the agriculturist at a rate ranging from 9 to 10½ per cent per year. This rate is perhaps the lowest that the agriculturist can expect to get money for. The other bankers (except limited banks) have no fixity of rate. The rates range from 15 per cent to 30 per cent per year. In some cases, I have seen even 60 per cent pro-notes, but such instances are rare. There are two usages in vogue amongst such agencies which are ruinous to the agriculturist, more ruinous than even the high rate. The first is the penal rate charged—even limited banks have 25 per cent as the penal rate as can be seen from their rules. The second is that many bankers, while they agree to a lower rate, have the pro-notes recite a higher rate with the consent of the executant. As I have stated elsewhere, the agriculturist does not know business and therefore does not know the date when his amount falls due. It is not in the interest of the bankers to let him know the date. Even if he is informed, the agriculturist does not care, he is not educated enough to care, to abide by the term fixed. He is therefore under a necessity to pay the penal rate. For example, in spite of the fact that I am taking steps, as a rule, to send for and inform the agriculturist, from a date two months prior to the date of maturity of the date of maturity, yet I find it difficult to reduce the percentage of overdues of the Urban Bank, Gobichettipalayam. I have also been requesting them in every general body meeting to care for and repay the amounts due before the due dates. It was possible for me to reduce the percentage from 17 per cent to 7 per cent and not lower than that. If this is the case in an urban bank, I need not mention what the fate of the agriculturist is when he borrows from the other banks. They do not want the borrower to pay on the due dates; it is like the wolf waiting for the goat to grow fat.

With respect to the second topic of a higher recital with a lower agreed rate, it is done to meet many contingencies. Generally money is obtainable on credit at a lower rate between July and December than between January and June. Therefore, whatever be the prevailing rate in August, the lender has to safeguard against the rise in rate in the first half of the year. A second reason is that generally the money-lender has to safeguard against the contingency of his necessity to seek relief through the court. And if a pro-note is taken to the civil court, from the date of the institution of the suit to the date of the realization of the amount, the civil courts usually allow only 6 per cent interest, only on the principal sum lent. No interest is allowed either on the interest accumulated or on the sum spent for the institution of the suit. In many cases it takes years for the realization of the amount through the civil court—the reasons for the delay are numerous and are beyond the purview of the enquiry as I see it. There are also the incidental expenses connected with the execution of decrees, the nature of which is such as cannot be included in the tenable costs, e.g., conveyance charges. So, then, the professional money-lender has to anticipate and provide for all these contingencies. But what appears to be a reasonable provision, if we take the view point of the money-lender, works out as a ruinous provision if we take the view point of the agriculturist. The agreement to a lower rate is only when the borrower pays at the time agreed, after which a higher rate is demanded, if at all the lender consents not to enforce the written rate. But in no circumstance is the written rate reduced if alone the lender goes to a court of law. Many money-lenders use this higher rate as a powerful weapon of offence against the borrower.

I may conclude this subject of the rate of interest by observing that co-operative institutions are put to loss if only they are forced to go to the civil court, notwithstanding the fact that decrees are got by arbitration.

My experience is that the difficulty in executing decrees is more severe than the difficulty in obtaining decrees. The remedy, in my opinion, can be obtained if the revenue authorities are invested with powers of execution similar in nature to the powers exercised for the collection of arrears of abkari sales, etc. But if this appears to be too ambitious, then all Sub-Deputy Registrars may be authorized to execute the decrees by distraint of movables. And till then the Taluk Magistrates of every taluk should be required by means of a circular to execute the decrees by distraint of movables after removing the existing maximum of forty cases, which alone they are empowered to. My reason shortly is this. As Secretary of the Urban Bank, Gobichettipalayam, it was possible for me to successfully execute the warrants of the civil court against the judgment-debtors by arresting them in 38 out of 39 cases; but, on their appearing before court, about 20 of them stated that they were prepared to go to the civil jail, entailing an initial expense of Rs. 30 on an average for each case, with a recurring expenditure of Rs. 8 per month for each case for six months more. The result is that the bank is so much the worse for having executed the decrees. I had to release all of them, for discretion is certainly the better part of valour. If alone it was possible for me to execute them by distraint of movables, then I am sure it would have been possible for me to realise the full amounts involved in all the decrees.

I cannot answer the questions under this heading.

2. I have already stated that it is essential to form pools. It is also quite possible, although at the outset there may be a paucity of the required human element.

The agriculturist is only an agriculturist. He does not even think of getting a profitable market. He is satisfied with his crop. If his crop fails, he calls it a misfortune. If his crop is satisfactory, he thanks his stars and there he stops. To him it is none of his business to seek a market for his produce. Nowadays—I mean for the last five or six years—he cannot even afford to wait for a month after the produce is stored in his granary. His creditors press him, he tries to evade them—practically a game of hide and seek—and therefore he has no time to wait for a market.

3. The value of land perhaps means the price at which the lands are being sold. The source of irrigation determines the crop. For example, if the source is a well, the crop is generally a garden crop as tobacco, chillies, etc. If it is a channel, generally paddy is cultivated. If there is no source of irrigation, dry crops are got. For dry crop land, the average price is between Rs. 100 to Rs. 300 per acre. Of course in every case there are exceptional circumstances to either diminish or swell up the price. For example, if the land is situated near the hills, with the perpetual fear of wild animals destroying the crops, an acre can be got even for the nominal price of Rs. 10. On the other hand, if the land is of good soil situated near a rich village, with well-to-do landlords adjoining and prepared to compete, an acre is sold even for Rs. 1,500. If the source of irrigation is a well, the quality of water is one other additional circumstance to be taken into account—for the quality of the water determines the crop that can be got—and if the crop is a valuable one the land gets more price. Generally the price of garden land in these parts varies from Rs. 500 to Rs. 1,000 per acre. If the source of irrigation is a direct supply like a channel, then the determining factor is the period for which water is allowed for cultivation. There are double crop lands, there are lands where water is allowed for double crop in alternate years, and there are single crop lands. In double crop lands, bumper crops like sugarcane and turmeric can be got. For some single crop lands water is allowed for four months and for some for six months. These are circumstances which go to contribute to the price of the land. The average price is from Rs. 1,750 to Rs. 3,500 per acre as prevailing for the last ten years.

Government auction for non-payment of revenue is rare in these parts in the case of garden lands and rarer still in the case of wet lands (direct cultivation from channel). There are instances of dry lands being sold for non-payment of revenue and such of them as are not bought in by Government for want of bidders are sold almost at the average prices noted. This is only my information on enquiry.

In civil court auction, there is no certainty by which any categorical statement can be made. In many cases, the decree-holder purchases the

land for the satisfaction of the decree, for a price much higher than the current price, because he repents for having lent the defendant the money and has nothing else to do but to rest satisfied with the land for the money lent and for the money spent. On the date of the auction, if alone there was any offer of payment, he would fain have consented to any sum less than the decree amount. There are also persons who are prepared to speculate but they are rare. In my opinion, garden lands do not fetch the maximum price in civil court auction, but wet lands fetch the correct prevailing price and sometimes even more. Dry lands suffer for want of bidders.

Private negotiation generally fetches a reasonable and proper price. But even there, in cases where there is a compelling factor which makes the owner sell his lands, the maximum price is not got. For example, if the owner is indebted, if his creditors press him for payment and threaten him with a suit, if the creditors are influential people in the midst of whom anybody will have to shrink and dwindle into insignificance, the creditors are able to and do dictate terms, for it cannot be denied that even in these days of democracy there are places where the Government officials themselves cannot run their office and do their work unless it be by cajoling (not in the sense of deceiving) the man in influence, however high-handed may be his act. What it is that the seller will get for his lands can be as well imagined.

4. There is no legal impediment for mortgaging lands. There are no agencies for long-term credit. The co-operative land mortgage banks are yet in their infancy and the central land mortgage bank is only about to be fledged in this Presidency. There, again, want of popular support and want of the required proper human element will have to be encountered.

In my opinion, deposits will raise more money than debenture bonds even with Government guarantee, for there is always the opinion amongst agriculturists and others that Government, like insurance companies, are willing to receive money more willingly than when they are to pay. In other words, the media to receive are less cumbersome than the media to pay. But even deposits will not be forthcoming unless the institutions are popular and of long-standing stability. For instance, urban banks receive deposits, where there is no offer of any deposit made to a co-operative house-building society. Therefore for some years there will be a paucity of deposits and till then, central institutions like the M.C.C.B. will have to finance the mortgage bank.

A margin of 2 to 2½ per cent will be sufficient to cover the expenses.

There is no other suggestion for me to make for providing long-term credit excepting the co-operative land mortgage banks.

5. It is extremely difficult to arrive at a reasonable estimate of the indebtedness of these classes. Correct figures will not be given if asked either from the lender or from the borrower. I know of no estimate.

I have dealt with the question of the rates of interest in another connexion and the same observations hold good here as well.

I do not think that a large number of farmers are turned into tenants at will.

6. I would recommend spinning and weaving. I am an advocate of khadi. I would like to have propaganda work done in this country on an intensive scale. It is the best employment for the farmers during the off-season. The All-India Spinners' Association may be usefully consulted and after exchequing their politics, the essential particulars may be adopted.

7. The Imperial Bank of India is helpful to the co-operative banks in so far as it affords opportunity for investing surplus funds and secondly inasmuch as it affords overdraft accommodation to meet the fluid resource requirements of co-operative banks.

Co-operative banks have to compete in the open field with joint-stock banks and indigenous banks. Such bankers are generally not friendly to co-operative banks. In fact there are many instances where overdue customers of indigenous bankers, are given loans in urban banks for the purpose of adjusting the amounts due in their indigenous banks soon after such bankers get themselves elected as directors of urban banks.

I have stated the difficulties in getting the required finance in another connexion. The difficulty is more pronounced in rural co-operative societies than in urban banks.

The competition between co-operative banks on the one hand and joint stock banks and indigenous banks on the other hand is felt in every aspect. In the matter of giving loans, if urban banks are prepared to and resolve to lend on agricultural produce or on the security of jewels, before the by-laws are registered, the indigenous banks soon begin to advertise and lend on the security of agricultural produce or jewels. In the matter of collection before the co-operative bank is able to go to court and attach the produce, the private banker spends heavily and practically knocks off the same, for in most cases as soon as a warrant of attachment of movables is shown to the defaulter, he at once falls flat before the creditor and abides by whatever he says. In the matter of receiving deposits if the co-operative bank pays 7 per cent, the private banker pays 8 per cent and is able to successfully tempt the person depositing. So then there is very keen competition.

I am thankful to this suggestion. I have all along been feeling as to the reason why special exemption from income-tax has not been granted. Although I can realize that all the gains from co-operative societies, dividend on share capital, interest on deposits, bonus to honorary workers, rent received for houses let for co-operative societies, etc., will not recommend themselves as such that can be treated as agricultural income, they may be treated as interest on premia paid to insurance companies. Agricultural income is not taxed nor is it added on to the net income for the purpose of determining the rate of the tax. I have no objection for its being counted for determining the rate of the tax to be paid. This will certainly encourage deposits.

Also, minor's amounts at present deposited in civil courts may be authorized to be deposited in co-operative societies of standing and possessing the required amount of reserve capital or other standard to be fixed.

II.—Indigenous banking.

My report has already swelled to an unexpected length and I do not propose to answer all the other questions.

1, 2, 3 and 4 have been answered in one connexion or other in the prior pages. The amount of capital invested, etc., cannot be stated with any reasonable accuracy.

The indigenous bankers find funds from deposits and from the Imperial Bank of India and from Saits, i.e., from themselves *inter se*. For deposits they pay from 9 per cent to 12 per cent. The Imperial Bank of India finances them to an appreciable extent. But more than the Imperial Bank, there are Saits—Gujarati bankers, I believe, whose sole business so far as I know is to compete with the Imperial Bank in the matter of lending to bankers and merchants on hundis.

6. The first part has been answered.

The answer to the second part is that the reduction of rate will necessarily confer a benefit on the agriculturist. But the long-term credit is essential for conferring any substantial benefit.

7. The bankers are sufficiently protected. But I would advocate an amendment in the insolvency law in certain aspects. For example, a creditor not added in the list of a debtor in his insolvency petition, is barred from filing a suit though he has had no notice of insolvency. This remedy in many cases gets lost. There are other such defects and the creditor is entitled to relief.

8. There is no co-ordination between indigenous bankers. There is keen competition. They are not educated enough for co-ordination-in-competition, but this is possible. For example, if there is a central institution, of which all the bankers are members, and pay *pro rata* for the working of the institution in accordance with their net gain, invest all their surplus cash in the central institution and receive back the same whenever they feel the necessity there will be substantial gain. If only every place has got a central institution and there is inter-connexion between the central

institutions of the different places with the possibility of advices being sent for the purpose of transmission of monies instead of actually money being sent in currencies, certainly the benefit will be appreciable. The benefit will in time reach the agriculturist-borrower. For example, there are about twelve Nattukottai Chetti bankers at Gobichottipalayam and there is no co-ordination amongst them. Some are getting money and some are sending money every day by insured post; by my scheme the transmission of money may be avoided. There are other incidental advantages. I am also prepared to scrutinize any other scheme for the unification of the heterogeneous indigenous banks in a district.

At the outset, the bankers will not welcome any such scheme. They are generally conservative in nature, but when enforced they are quick to understand, and realize the advantages and follow the same.

9. The net return ranges from 10 per cent to 24 per cent but the average will be somewhere at 15 per cent of profits. Losses are few and far between. They occur only when the manager is constitutionally unfit for banking.

10. Insufficiency of working capital is no doubt one of the causes for inability to meet all demands for accommodation.

III.—Investment habit and attraction of capital.

1. There are institutions sufficient in number for encouraging the investment habit. But propaganda is necessary for making the agriculturists to invest.

The people of India invest in gold and silver. They prefer this to investing in motor cars, etc.

2. Postal cash certificates are not popular.

Savings banks do not afford all the facilities for investing.

4. The growth of the cheque-habit is, of course, general and great especially after the abolition of stamp duty.

Bankers and educated people are now using cheques more freely than they used to even two years back.

5. Banking is slow in India, the main reason seems to be that India is more an agricultural country.

Regarding education, I append a special note.

The result of the opening of new branches of the Imperial Bank is not very favourable for two reasons, (1) the heavy cost of maintaining the branches and (2) the necessity of the branches to be following the instructions of the head office. Out-agencies may be tried for some more time.

But better than this, branches of joint-stock banks may be more usefully attempted. Any competition between the Imperial Bank of India and the joint-stock banks is not wholesome.

Propaganda and education.

This is a subject upon which, although a good deal can be said yet I have to resist the temptation and state only the salient points. The agriculturist is generally uneducated except for what he has learnt from his experience and what has been handed over to him by his father. His wants are few though of late they are found multiplied in about 15 per cent of the population of agriculturists, and therefore he rests content with what he gets from his land. He attributes every failure to Providence and goes and borrows to meet his expenses. He very rarely thinks of saving and putting by to meet adverse seasons. He thinks of his small circle only, the public welfare is no concern of his according to him. In order that he may have a wider and broader outlook education is necessary.

How is he to be educated? What is the kind of education suitable to him? These and other questions have been asked by greater men and have perplexed greater minds. Answer in a sentence is impossible if a solution is at all possible.

Whatever be his education, this much is certain that the agriculturist is prepared to listen to and follow suggestions for his uplift. He may be instructed as to the particular kind of manure to be used for the particular kind of crop, as to the implements that he may use, in short as to how he can reap the maximum benefit out of his land. He may be shown the most beneficial market for his produce. He may be instructed in co-operation. For propaganda work, I have seen, magic-lantern slides are very useful; for unless there is something to catch his eye, he takes the propagandist-lecturer to be a man asking for subscriptions and thinks of absenting himself.

What is the agency and how are the expenses to be met.—District urban banks knowing not what to do with the extraordinary profits have set apart sums for the propaganda work. Official help will considerably improve the situation.

Another means is to teach co-operation in the schools and to show the students the benefits by working a books and stationery society in schools.

The Government can also undertake to call for conferences in each revenue firka once a half-year and invite prominent officials and non-officials to speak on important matters like co-operation, business and business-habits, thrift, etc. The Government can afford opportunities for non-official work in this direction, by instructing the village officials to assemble the agriculturists.

Non-official public work by the villagers in a village may be encouraged by offering prizes to such of them as have shown substantial work.

**Written evidence of M.R.Ey. G. THALAMALAI PILLAI Avargal,
Inspector, the Salem District Urban Bank, Limited,
Mukkampatty.**

I.—Agricultural credit and credit facilities for small industries.

(a) The poor agriculturists having landed properties in my jurisdiction are mainly in the habit of borrowing from respective local money-lenders and petty traders on conditions that they would sell their respective products below the market rate, or pay with higher rates of interest ranging from 18 to 40 per cent according to the situation of the respective villages and the status of the villagers. The tenants used to borrow from their respective landlords on condition that they would sell their shares at concession rates. Many ryots borrow seeds on condition that they would return the same with an equal quantity.

(b) The landowners generally mortgage their properties (1) to their neighbours, (2) to money-lenders in the neighbourhood and (3) to the Government for obtaining loans to meet their useful purposes. Some who are in the respective areas of operations borrow from co-operative societies.

(c) Whenever the villagers do not get sufficient income from their landed properties, they borrow provisions from well-to-do landlords and professional traders promising that they would return the cost of such provisions with 24 to 40 per cent interest calculated half-yearly. The local traders recover the interest in kind.

Since ordinary ryots do not get earnings during January and February, they borrow from petty traders agreeing to sell their succeeding products at the threshing floor below the market rates.

Local dealings are being carried on simple bonds, personal surety bonds, pledge of jewels and cattle. The rates of interest vary from 18 to 40 per cent per annum. Loans are being granted by the Government at 6½ per cent. But ordinary ryots have no facilities to obtain such loans easily.

Regarding the parts played by the money-lenders, please see the above paragraphs. Local money-lenders are mainly bent upon making wealth by charging very high rates of interest.

The local co-operative societies are being financed by the co-operative bank. Had not such societies existed in some villages, local money-lenders would charge even 60 per cent. The total amount of capital required for the various purposes in my jurisdiction may be estimated at Rs. 12,00,000.

Maximum borrowing power of the primary societies may be fixed at one-fourth of their net assets. Loans to ryots may be granted on simple bonds, whenever they pledge jewels. But the respective panchayatdars should be made responsible if any irregularities arise due to their mistake.

• As I had been stating in my previous paragraphs, the ryots take advances from the petty traders on condition to sell their respective products at low rates. The petty traders in their turn gather such products and sell them to the other agents of big companies. By this system the ryots lose very much.

So far as my humble opinion goes, I beg to state that the branches of the Salem District Urban Bank should be organized and started in every taluk under the direct management of the financing bank or if it so pleases the authorities under the combined management of the respective authorities of the local co-operative unions and the financing bank. If such institutions are organized, I think the movement would spread considerably. Local money-lenders of the taluk would certainly be attracted by these institutions. In addition, branches of the purchase and sale society should be organized in each of the taluks so that at least the villagers having co-operative credit societies would enjoy the facilities of selling their products and buying their needs profitably. In due course the poor ryots of all the villages in the taluk would be benefited.

Branches of the financing bank and the purchase and sale society should be organized in each taluk. The ryots should be granted advances just as any other petty traders do. During the seasons of the principal products, arrangements should be made to sell products jointly and purchase their needs jointly.

Internal remittances, whatever be the amount, are being made through post offices and through sub-treasuries whenever the amount is Rs. 150 and above. Concessions regarding remittance charges have to be necessarily given to the remittances made by co-operative societies through post offices. Arrangements should be made so that the sub-treasury officers would receive any portions not less than Rs. 50 for transmission.

3. In my jurisdiction, one acre of dry land is being sold at Rs. 50 to Rs. 200 for groundnut and other dry crops and Rs. 200 to Rs. 600 for paddy and other commercial crops such as sugarcane, tobacco, chillies, etc. They say that the low value is due to the malarial tracts. Further the villages are not thickly populated.

5. The existing indebtedness in my jurisdiction may be estimated as Rs. 10,00,000. Provided the number of societies is increased and more advances made to agriculturists, I think that local money-lenders too would invest money in the societies. These debts are mainly due to the private dealers, partly due to the co-operative societies and partly due to the Government.

Interests are being charged as follows :—

Co-operative societies 9½ per cent (for overdues 12½ per cent) ; Government 6½ per cent ; local dealings 12, 13½, 15, 18, 24, 37½ and 40 per cent. Compound interest is also charged by the local money-lenders.

6. There are three groundnut mills in my jurisdiction. Handlooms may be introduced so that the villagers may work during summer.

As I have already stated, Rs. 12,00,000 would be needed for financing co-operative societies in my jurisdiction.

II.—Indigenous banking.

The business of the private money-lenders is as follows : They lend money to the agriculturists on high rates of interest on condition that they should sell their products to them at concession rates. In case of default due to the failure of monsoons, etc., the dealers calculate very high rates of interest and persuade the tenants and petty landlords to return their dues in the shape of cattle, thereby they earn something by disposing of them immediately, or they force the ryots to execute mortgage deeds. Thus, the ryots are involved in debts. The very same ryots who have sold their portions or whole of cattle or who have mortgaged their landed properties borrow again for household expenses and cultivation expenses such as buying bulls, seeds, manure and implements, etc. Thus due to extraordinary conditions of these local dealers and high rates of interest, the poor ryots are unable to repay their debts.

III.—Investment habit and attraction of capital.

Savings by poor people are not being made since deposit in the shape of money alone will be accepted by post offices. I think the by-laws of the co-operative societies may be suitably framed so that the villagers would save in the shape of produce. Such savings would be helpful to lend to needy ryots at cheap rates of interest in the shape of the same sort of produce.

Yes, deposits of all sorts should be entirely allowed to go to the banking institutions. Takavi loans should not be granted by Government. Such surplus amounts should be deposited in the banking institutions of the respective districts. If so, I think that the co-operative finance would increase rapidly.

The rich farmers lend to fellow agriculturists. Some charge 12 per cent interest. Many have the desire to amass wealth by these petty dealings. In due course they turn into agents of merchants living in the headquarters of the taluk, the district and that of other Presidencies. They have the chances of becoming professional money-lenders by getting surplus amounts during prosperous years.

**Written evidence of M.R.Ry. A. RAMACHANDRAN Avargal,
Inspector, the Co-operative District Bank, Hosur Circle,
Hosur.**

1.—Agricultural credit and credit facilities for small industries.

1. The finance for agricultural purposes is obtained as follows:—

For expenses during cultivation.—Takavi loans are granted for purchase of seed only by the Revenue Department repayable within a year at 6½ per cent. This is availed of only by a few people who can afford to repay the borrowed amount at the appointed time.

Loans from co-operative societies in villages, if there are any.

Loans raised as advances from merchants.

Amounts earned by a section of the people who have subsidiary occupations such as cattle-breeding, cumbly-weaving and petty trades (such as storing tamarind, soap-nuts, etc.).

The area of Hosur being a rocky and rugged one, the villagers grow (ಇವರ) avarai and ragi in abundance. This forms the main food of the people. The daily refuse of the cattle and fodder refuse are being deposited in a pit and the same is taken out to the fields for manuring at the season. The lands are rain-fed. The villager employs monsoon ploughs. He never hesitates to do the required thing at the proper time. The villager's well-being or otherwise depends upon the monsoon. So his cultivation expenses are very limited. As regards his food and clothing, he has his ragi stored for years and he never disposes it off. In the case of villagers who own wet lands, they are invariably from the middle-class and they employ their own funds.

For capital and permanent improvements.—Loans under Land Improvement and Agriculturists Loans Acts are granted by the Government at 6½ per cent repayable in from 10 to 30 years. I hear that the repayment period is fixed by the Revenue authorities instead of by judging the capacity for repayment by the borrowers. Generally it does not work as a hardship upon the borrower.

Loans from co-operative societies where the area is served by such institutions.

Borrowings from the Government are very scarcely availed of by the people owing to the difficulty in obtaining such loans. Otherwise, the loans are very helpful to the agriculturists. Loans from co-operative societies are also given but not to the desired and deserved extent owing to the narrow borrowing limit prescribed by the by-laws.

Permanent improvements and other things are only possible when the owner of the land is relieved of the oppressive money-lender with whom the land is under alienation. The prior encumbrances on the land make him forget his land, raise his crops with the available resources with him leaving his yield to nature and get the quantity remaining after paying off his creditors, to just keep his body and soul together. In most cases the share of the tiller has become practically nil. The fragmentation of small holdings is a great obstacle among the agricultural classes to enable them to do permanent improvements and this is also one of the reasons why agriculture has not been a paying concern to many a ryot as he cannot pay sufficient attention to all the lands at a time and cannot divide his labour for all the lands in his possession.

Loans from private money-lenders are not common and as the repayment of the loan becomes a heavy task with the frequent failure of monsoon, they do not borrow capital for land improvements. The rate of interest on advances vary from 24 to 200 per cent when the villager agrees to pay from his harvested crop in full or in part. This kind of loan is rampant in the interior of the taluk and is granted repayable at the harvest time.

The Imperial and joint stock banks do not help the agriculturists in financing them directly as they are not situated in convenient centres. But they help through middlemen and merchants who deal in marketing the produce. After the advent of the co-operative movement and with the existence of co-operative organizations in villages, the part played by money-lenders (professional) has become more restricted to middle-class men and lump sums and the poor are left destitute.

On account of the commercial attitude of the Imperial Bank of India and its distance, it has not touched the agricultural masses in spite of its branches all over. Further, the urban nature of and the absence of men with local knowledge in the concern deter the Imperial Bank from giving its helping hand to the agriculturists even in places where there are branches. As regards other credit agencies, they are more than enough and as they cannot arrange to lend out cheap money to the already much oppressed cultivator their presence is much disliked by the agriculturists. The only agency which can cater to his agricultural needs cheaply is the co-operative concern which requires reshaping to satisfy the short-term agricultural needs alone aided by the land mortgage banks to dispense with long-term credit needs for land improvements, in which case the Government should also be approached to transfer their takavi loan amounts to such land mortgage banks. The latter case has already been in the forefront and has been pressed for in so many conferences.

In selected centres, co-operative banks may be made agents of the Imperial Bank.

4. The land mortgage banks should have their working capital derived from deposits and debenture bonds. The reserve funds of all primary societies held in central institutions may as well be held in land mortgage banks or may be utilized in purchasing debentures. Since the Central Banks are having surpluses all the monies held by them as deposits of a permanent nature may be given away to the land mortgage banks. The Government should guarantee interest on debentures. They may be allowed to accept deposits up to 6½ per cent in which event it can have enormous amounts at its disposal as all the Central Banks have reduced rates on their deposits and may lend to members at 8 per cent, the Government undertaking to subsidize half the cost of running these institutions, the other half being met by the banks.

5. An estimate of the indebtedness of the agriculturists and others may be obtained in the same manner by which the revenue authorities get their cattle census done. The village officers may be made to send a statement of indebtedness (both security and surety) of the inhabitants within a given time.

Indebtedness coming under the purposes 1.—The repayment of earlier debts and growth of the debts by compound interest—interest not having been paid are in heavy sums and much sums are due to professional money-lenders. In some parts of the Krishnagiri area, there are debts the amounts of which are concealed in the form of a judicial sale to circumvent the provisions of the Act. In most cases the villager has not the convenience to repay the loan and consequently has to part with his lands.

The rate of interest ranges from 12 to 18 per cent in the case of mortgage loans and from 15 to 100 per cent in the case of other loans. They are calculated on whole months.

The Committee is right in thinking that a large number of people who are efficient farmers are turned to tenants for a period and tenants at will through the process of the enforcement of the old debts and landed property passing into the hands of the creditors. The Government should extend the privileges under the Insolvency and Court of Wards Acts in which case the farmer will have less chances of contracting debts at the same time arranging to pay the amounts due by the debtor to the creditors in a reasonable length of time much to the convenience of the borrower. This is not applicable in the case of debtors who are within the means of repaying their creditors.

To the subsequent question, the answer is in the affirmative. So long as his burden of debt is hanging and pressing hard on his head, he never thinks of improving his lands. Any improvement to the land will be advantageous to the creditor.

The subsidiary industries are cumbly-weaving, dairy-farming and garden produce. They can be improved co-operatively and, if organized on a co-operative basis, funds may not be wanting locally to further the enterprise.

7. Only chit-funds are conducted by a group of men. The introduction of chit-funds by the U.L.S.R. banks has caused a great shock among its clientele some time back as there were embezzlements everywhere and as a result the subscribers to that fund had to lose about Rs. 1,200 in Hosur taluk alone. No other indigenous banks exist here except private banks and chit-funds.

As far as enquiry goes, an average farmer does not sell his produce even in prosperous years but stocks his produce which, as already stated, forms his staple food for himself, his family and servants who are also to be fed and clothed by him. Even in times of famine and distress, the cultivators should feed his servants though himself and his family starve.

The farmers are used to invest their surplus monies, if any, in purchasing cattle and breeding them properly thus maintaining a pretty good stock of cattle and taking them to the plains for sale when they do not have work in the fields. In recent years they indulge in hoarding up in gold and jewellery ever since the heavy cattle mortality in the year 1922. There is also a tendency among the farmers to oblige each other with the required funds.

As regards facilities for remittances it is recommended that the co-operative banks and other banks and the public while sending their monies through the banks should be given facilities to remit even sums below Rs. 50 through treasury; but to avoid unnecessary time and labour the amount should be fixed at Rs. 50 for remittance under R.T.R. and cash order. Further the R.T.Rs. and cash orders should be paid at the sub-treasury on presentation without delay as now caused in cashing them.

All the recognized banks should be given a statute empowering them to issue their own bank notes of small denominations, so that the paper currency may be handled by the people more freely and with less fear. The issue of Re. 1 and Rs. 2-8-0 currency notes had a wide circulation though there was opposition in the beginning and before it became popular among the people, the issue was withdrawn. The barter system of grains is still in vogue in the interior of the taluks which means heavy loss to the farmer and by the introduction of a suitable kind of bank note or currency the primitives in the villages may have chances of using metallic currency when their brethren in the urban areas use notes as medium of exchange.

The growth of cheque habit among the people after the abolition of stamp duty has been appreciable and only urban people handle these in their transactions. There may not be any objection in promoting cheque habit among the Government servants and bank employees for even small sums provided the cheques are made negotiable throughout the Presidency and also provided the Government order negotiation at the treasury and post offices on presentation from out of the national assets themselves or the nearest co-operative banks acting as their collecting agents.

Owing to the absence of honest and enthusiastic workers in promoting indigenous banks and owing to the much expensive constitution of the joint-stock banks backed up by rigid registration and also owing to the sudden collapse of some of the big banks receiving deposits, the banking and investment habit has been of a slow growth. With the steady growth of the co-operative movement, the investment habit as well as means of the people can be said to be on the increase. The banks like the Mylapore Hindu Permanent Fund, etc., are doing much benefit to the constituents by acting as banks of deposits.

The results of the opening of branches of the Imperial Bank of India recently are—

(i) the change in the cultivators' outlook from agricultural to commercial to keep pace with the time and spirit of the branches and their personnel;

(ii) the tightening and the governing of the money market;

(iii) enormous profits which the branches make with Government money rolling into the Imperial Bank of India with or without interest;

(iv) owing to the location of branches of the Imperial Bank of India in commercial and industrial centres, and as these branches hold the market and govern them the tendency of the agriculturists and other artisans to grow only commercial crops which would get him enormous profits and which sometimes adversely affects him in times of bad season is great and this tendency has made many a farmer to forget his principal food grains.

(v) the control over the Government money free of interest has made the other banks, especially co-operative banks, to reduce their rates of interest on investments made by the public. This adversely affects the investing public; and

(vi) with the working of the godown system and issue of loans on the pledge of commercial produce, the number of middlemen is on the increase who take away the profits that the cultivator is entitled to.

Instead of branches of the Imperial Bank of India, individual bankers called shroffs who have sufficient local knowledge and experience may be appointed at all centres to do all kinds of banking. Even this is not enough to tackle the question of restoring agriculture to its original level. The only institutions that can function satisfactorily without detriment to agriculture are the co-operative banks which, if employed as agents of the Imperial Bank of India for their work, would better themselves, the masses and the country.

**Written evidence of M.R.Ry. T. N. RAMANATHAN Avargal,
District Bank Inspector, Omalur Circle,
Omalur.**

1.—Agricultural credit and credit facilities for small industries.

1. The agriculturists are financed by the local money-lenders and even by co-operative credit societies. The rate of interest charged by these societies is at 9½ per cent per annum and the period for short-term loans is one year and for long-term loans 5 years and not more than this. The rate of interest charged by the local money-lenders ranges from 12 per cent to 40 per cent for cash payments and for produce or grains lent as loans, one and a half times the quantity of grains borrowed, from the next harvest, say, within a period of six months. If co-operative societies are financed properly to meet the demands of the ryots at any time they make them and that on the spot, this defect will find a suitable remedy and the condition of the people will be bettered. The security given to the local people is sometimes mortgage of properties or pronotes with sureties and for short-term loans even jewels and ornaments.

2. Private persons having mandis in taluk centres collect the principal crops brought by the people and market them in their godowns and pay them the value of grains as sold in markets and if the farmer does not agree to receive the value of the crops as sold at that time, then he is paid an advance on the pledge of all his grains and the balance is paid to him after the sale of the same at favourable rates and that as per the directions of the farmer. If this is undertaken by primary societies in the villages themselves, the poor agriculturists will be profited with less amount of labour and will be saved the commission paid to the mandimen. But of course they will have to pay a small rate of interest on the advances received which will not be more than the commission paid. Till now no society, as I learn, is dealing in such works.

3. The value of wet land per acre is from Rs. 500 to Rs. 3,000 and of dry from Rs. 25 to Rs. 1,000 and these are based upon the condition of the soil and the source of water-supply.

4. Primary land mortgage banks have to be started in centres of taluks where the unions work well at the rate of one for a radius of seven miles, so that the number of societies existing within that area will be benefited by lending the requirements of the people in cash without allowing them to go to the money-lenders and for a smaller rate of interest with sufficient number of years for the repayments. At the first stage, if the funds are available from the central institutions, the problem, I think, will work out, and that in rural areas. Further, for the sound working of these institutions, the loans issued by the Government under the Agriculturists Loans Act and the Land Improvement Loans Act may be stopped and the existing societies improved by such finance, if possible, and necessary arrangements towards this have to be made. If this would be difficult, at least the Government may be induced to ask the societies for their approval whenever loans by them are issued to such persons as live within the jurisdiction of the societies.

5. The societies working at Anayampatti, Gangavalli, and Thedavoor, as I know, have their working capital as Rs. 32,000, 17,000 and 32,000 respectively, but, if they begin to work properly, at least Rs. 5,00,000 may be issued as loans to members in these three villages and also collected without any difficulty.

**Joint written evidence of (1) M.R.Ry. C. GOPALAYYA Avargal,
(2) M.R.Ry. A. V. SUBRAMANIAN Avargal and another,
Rasipuram, Salem District.**

1.—Agricultural credit and credit facilities for small industries.

1. No particular system governs our agriculturists in obtaining finance. Our agriculturists do not obtain loans from a single man but approach various persons at different times.

(a) Credit is almost an inevitable condition of small farming. Agricultural capital is supplied by the village money-lender and also by the sowcars and merchants in adjacent urban areas.

(b) For permanent improvements such as the digging of wells, for equipment, including implements and cattle, for working capital, for buying manures, seeds and fodder and for paying the labourers, the ryot approaches the sowcars in towns.

(c) For other special needs such as for domestic purpose, for ceremonies or for payment of revenue, etc., the ryot obtains loans by pledging some of his ornaments or by disposing of his cattle.

The rate of interest, although it is theoretically the same for all at any given time and place depends in practice upon the nature of security offered and the period of time for which money is borrowed. Even for one taluk as this the rates are not uniform, those charged by the smaller indigenous money-lending concerns being abnormally higher than the rates of any other institutions. Further, the rates vary from day to day according to the demand for money. During marriage, kist payment, and sowing seasons the rates go very high—high to the extent of 60 per cent. Marriage is an inevitable function, kist is a compulsory payment and purchase of seed is the ryot's occupation; and so the poor ryots are bound to incur the expenditure for these items for which they must borrow for nobody owns capital in this season of drought. When purchasing seed it is frequently a part of bargain that the produce should be delivered to the money-lender or seed supplier at a certain price which is always very much below the market rate. Sometimes it is a contract that the ryot has to return double the quantity of seed supplied to him. If a ryot, by fate, falls in evil ways, law suits become another inevitable factor to him and thus he becomes heavily indebted, as the interest also is added to the principal year after year and thus the debt often runs through the life of the borrower and is inherited by his heirs. Thus the following rates of interest are charged from the ryots by the indigenous banks and private money-lenders in this Rasipuram taluk :—

(i) For big sums lent for more than one year the rates per cent ~~per~~ on the face are 18½ and 24 per cent which finally work up to 36 and 48 per cent.

(ii) For ceremonies, payment of revenue, and loans for law suits, the interest charged on loans works up to 24 per cent.

(iii) For cultivation expenses the interest originally charged is 60 per cent which works up to cent per cent at the time of payment—this is according to the contract between the parties, the cultivator accepting to double the quantity of seed supplied to him.

(iv) I have already said that the rates vary even according to the pledges offered; for urgent needs the ryots pledge their ornaments, for which loans the interest charged has not gone beyond 12½ per cent in this taluk.

Period of loan.—The private money-lending concerns are not granting loans for a period of more than a year at present. First of all they do not fix the period of repayment either in consideration of the purpose of loan or of the repaying capacity of the borrower. Mostly all borrowers are not known to the lenders. It is the middlemen that do the function of introducing the borrower to the lender and as the former stands surety for this loan, the loan is immediately granted without ascertaining fully the condition of the borrower—this has led to another crisis which has to be explained in another chapter.

Security.—Generally for advances, personal securities are demanded and the amount of loan granted also has got to do something with the surety. If landed properties are offered, only 60 per cent of the value of the land is advanced as loan.

Private money-lenders grant loans on the pledge of ornaments. Crop pledges are very rare at present as crop failures have become very familiar and common.

Conditions.—Interest noted on the face of the bond will be quite different from that charged and generally the interest charged will be deducted at the time of disbursement of the loan. This is done only if it is a short-term loan repayable within the period of a year. If it is for more than a year, only three months' interest is deducted at the outset.

Agricultural finance—The Government.—The takavi loan system of the Government is the most inadequate and ill-suited to agriculturists. I give below how it has been a failure :—

The villagers are not aware of the existence of Government loans granted for the improvement of lands. It is the officials that visit the village that inform the ryots about this system—they do so not out of sympathy to the villager . . . but . . . The ryots are ignorant of the procedures to be adopted to raise loans from the Government and so they seek the help of the village officers and taluk officials who for their little obligation, penalise these borrowers and extract heavy doles before the money actually reaches the ryots. Before the time the money reaches the ryot he will have another very important expenditure for the money and so the money goes a waste—it is not utilised for the improvement of the land. Naturally his debt increases without any corresponding increase in his assets or permanent improvements.

Again, the Government has not got adequate staff to check these things—naturally this should come out of a free will to serve the poor ryots. Lastly at the time of payment it becomes another revenue demand and so the same force is applied to recover the sum. Then how he secures this sum requires another story to be narrated about him. It is such loans that are inherited from generation to generation which have reduced the peasants to this state of 'not even one round meal a day' though he is really producing enough for him to lead a peaceful life.

The Imperial Bank of India.—This is a palace hospital and the market venders are not administered medicine here. It is needless to point out that the villagers are not aware of the existence of such an institution and, even if they know its use will be very little to the ryots.

Joint-stock banks.—It does not touch even the fringe of the credit movement and naturally its existence is very little felt. Even supposing it begins to develop its principles are not favourable for rural credit system. Anyhow at present it is a non-entity in villages and as such it needs no description.

The indigenous banks and bankers, professional money-lenders, merchants and dealers.—These institutions are, no doubt, exploiting the misery of the poor cultivator, but these render him good service in so far as these enable him to live. Whatever be the drawbacks of these institutions, they are on the whole rather beneficent. We have got to say so because no beneficent institution is yet properly organized to speak in sympathy with the poor cultivator. (Here about co-operation I shall state last.) These institutions may be viewed from both sides. These exist as a sort of partner with the ryot, supplying his needs at all times, maintaining him at the time of misfortune. These prove again as the beasts of prey seeking him everywhere whom they may devour. As society and credit are at present constituted, they fill an absolute gap and are really, rural necessities. On the other hand they are the most undoubtedly expensive and dangerous necessities. These exist from time immemorial. Though the interest charged by these bodies are eating the very life-blood of the ryots their indebtedness has not in any way lessened. So credit is an absolute necessity but the practice of usury must not be allowed to continue at this rate.

Co-operative banks.—The real solution of the problem would lie in a system which should provide the peasant with facilities for borrowing at a low rate of interest, and at the same time, devise safeguards against imprudent and reckless borrowing. The credit associations as contemplated by

Raiffeasan and Schulze Delitzsh on which the Indian co-operative societies are modelled fulfil the conditions of credit. Credit system must be democratised. Finance left in the hands of the rural public imparting to them at the same time their responsibilities in the management of the credit associations, really will satisfy the needs of the cultivator in all aspects. It is 25 years since the first Act was passed and 17 years have elapsed since it was suitably altered. But what shape has this movement taken and done to improve the despicable condition of the ryot? It has worked and really done some good—but still there is wide scope for development and until it is developed, there is no hope of any redemption whatsoever.

Amount required.—It is only through co-operative credit movement the villages can be rebuilt. There are only 52 co-operative societies in this taluk with a transaction of nearly five lakhs of rupees. Of this sum of rupees five lakhs only one lakh (Rs. 1,01,231) has been granted to members for the discharge of prior debts. This is a very melancholy feature. The indebtedness of the villagers to outside agencies such as Nattukottai banks, private money-lenders, etc., amount to Rs. 21,31,220. Of this sum Rs. 17,04,280 has been granted on the mortgage of their landed properties. When are these people to be relieved from the venomous serpents which are slowly injecting poison into their system? This short-term credit system of the co-operative movement will benefit only to meet the cultivation expenses. This should be only a secondary policy. First grant long-term loans to the agriculturists and thus relieve them from the worries of their various creditors and then if short-term loans are granted from time to time to improve agriculture it will really be productive because then only the agriculturist will apply the loan borrowed for the definite purpose. The villagers' dues to Nattukottai Chettis alone amount to Rs. 4,68,940 which carry an interest of 24 per cent at an average.

So, this Rasipuram taluk would require approximately—

Rs.

- 1,00,000 for expenses during cultivation ;
- 3,00,000 for capital and permanent improvements ;
- 1,00,000 for special needs and revenue; and
- 21,31,220 for discharge of prior debts.

So in all the taluk will consume about Rs. 30 lakhs and of this about Rs. 25 lakhs ought to be long-term loans of 30 years' period. It is only then any single system may be said to govern the village ryots and any single institution may be said to be working for the good of the village public.

Defects in the present system.—The defects have also been stated in my explanatory paragraphs above and the remedies have also been briefly suggested.

Co-ordination of work in the credit agencies.—There is absolutely no co-ordination among the various credit agencies working at present including the Government and no co-ordination is possible considering the nature of the systems that govern the various credit institutions and private money-lenders. Improvement cannot be suggested unless one single agency is made to work with a uniform system of credit.

2. Present method of marketing principal crops.—Generally the industrial crops are marketed to outside districts in this taluk and the principal crops are groundnut, tobacco and cotton. Generally when the crops are ready for harvest, the merchants or their agents go to the ryot and secure the produce to be sent to them. And some amount is advanced at the initial stage as security. The merchant himself bears the cost of marketing the finished product at the beginning but it is recovered later from the ryot in another form.

Formation of pools in marketing produce.—Forming pools in marketing produce is a very laudable idea but it should be restricted only to principal industrial crops mentioned above. Because so far as this taluk is concerned the staple crops that can be exported are only those noted above. Some enterprising organization ought to do this function with the co-operation and sympathy of all the merchants in the district dealing with these produces.

A co-operative trading union is also a proper agency to undertake this function and one has been recently started in this taluk to pool the groundnut crop only at the initial stage. But this needs men—men of public spirit,

The cultivators may deposit their produce here and they themselves are allowed to sell if they get a good price. Needy members are advanced loans on the pledge of their crops. Instead of the cultivator seeking a merchant, the society may do it and it is only then it will be profitable to the ryot as the concern exports a large quantity of goods at one and the same time.

If there is staunch co-operation between cultivators and merchants and if they run a common agency like this, pooling will prove fruitful and the idea will then be a splendid one.

Credit facilities during marketing—at present.—Credit facilities are most inadequate at present. The merchant does not advance the required sum to the ryot. Groundnut, tobacco and cotton require various processes to be gone through before they are ready for the market and the ryot has got to borrow the sum from outsiders to attend to this function. The merchant pays only a nominal sum as advance simply to secure the produce for himself.

Facilities for internal and foreign trade—special difference.—This question regarding the foreign trade is connected only with urban areas such as district centres and so, as I am a villager, I can speak only with regard to the ryots' condition but not with regard to merchants dwelling in towns dealing with foreign trade.

The part played by different classes of banks and bankers, merchants and dealers during the process of marketing—Banks.—I have already stated above that the cultivators obtain loans for marketing their produce, etc., from outsiders. One of the agencies that are financing them is the co-operative credit society at present. The co-operative central bank of this district is prepared to lend any amount for the purposes of cultivation. Fore-cast loan applications are being prepared in all the rural credit societies which facilitate the cultivator with necessary finance at all stages of cultivation and until the produce reaches the market. But how it would fully improve the ryots considering the present state of affairs is to be watched.

Bankers.—The indigenous bankers such as Nattukottai Chettis and other private money-lending concerns are also financing the ryots for marketing their produce.

Merchants and dealers.—These, of course, are financing the ryots for cultivation expenses from the beginning to the end because it is these people that are profited at the end. These people advance them loans on the understanding that the produce is sold to them.

The defects existing in these methods are abominable. The contract between the merchants and the cultivator is the most ruinous to the latter which he does not realise because in times of need he is helped by these merchants.

Facilities for internal remittance—Banks.—The co-operative bank, urban as well as rural, are sending their remittances to the central bank through postal money orders, insurances and through the sub-treasury by way of R.T.R.'s.

Bankers.—Between bankers in different taluks, remittances either by post or treasury are not frequent. Only advice passes through the post offices by making the necessary adjustments in their book of accounts.

Defects in the present system.—The existing system in remitting money through the treasury presents real difficulty to all the co-operative institutions and others. Because the treasury does not accept to transfer less than Rs. 150 at a time which is most unsuited to the small banks in rural parts where as a rule not more than Rs. 10 is allowed to be retained as cash balance. It would be advantageous to banks and bankers if this is suitably altered and some other lower figure is fixed as the minimum.

Part played by the Negotiable Instruments Act.—

Suggestions for extensive use of bills.—

Different classes of hundis.—

Suggestions for amending Negotiable Instruments Act.—

Hundi—Discounted in local centres.—

Different kinds of instruments of ownership.—

Difficulties experienced.—

Possibilities of operating licensed warehouses.—

Need for Government assistance.—

} Not possible to answer these questions.

3. *Value of land per acre for different kinds of crops—Rasipuram taluk.*—The soil in this taluk is very fertile, we have got black cotton soil and soil suitable enough for the growth of sugarcane around Rasipuram proper and soils for growing tobacco. The lands that facilitate the growth of these crops cost nearly Rs. 1,200 per acre but on an average it works up to Rs. 700 because the price depends upon the locality first. Considering the average value of lands per acre, both the wet and dry lands stand at the same figure in this taluk.

Factors affecting the same.—(a) Wet land Rs. 400 per acre and dry land Rs. 180 and 300 per acre. This is a very old figure. It is not possible to guess how much it will come up to, now; because no such thing has happened at any recent date. Anyhow it can be said that the land is undervalued if it is brought for sale by the Government for non-payment of tax.

(b) This has happened. In one case the price has gone high, higher than the value of the land and in the other case very much below the normal, in the former Rs. 980 per acre and in the latter Rs. 210 per acre—both the lands are situated in the same plot and both of them are of the same loamy soil. Both are dry lands where wet cultivation is also possible. The reasons for such happenings are multifarious. It depends upon no principle or factor. If this is to be explained it would lead on to a regretful crisis.

(c) I have already said that the soil is good in general throughout this taluk. So that the other factor that fixes the value of the land is its locality and the easy access from the villages to frequently have watch over the lands and secure labourers without difficulty to work on the farm. Lands at the foot of the Kohi hills are not priced so much as lands around a village or hamlet though the former are a thousand times more fertile than the latter. It is due to the aforesaid reason. Generally when sales are effected by private negotiations, the price will be just about or almost exactly the value of the land. First of all, here, both the parties find enough time to trace the genealogical history of the land by securing all the old documents as far as possible and finding out who owned it first and how it passed on from hand to hand and if by sales at what rates. Secondly the productivity of the land is also traced out. Thirdly the present yield per acre is also considered. And lastly though not the least, further scope for improvement in the productivity of the land is calculated. Without any hope of this nobody will be attracted to purchase a land. When a land comes for sale by auction, the adjacent landowner wishes to purchase or purchases without any consideration of the abovementioned last reason because he has only one view, that if a third person comes in some trouble might ensue to his land and so he purchases it. This is absolutely not the case when sales are calmly effected by private arrangements.

4. *Land mortgage or any bank for the long-term credit.*—There is no land mortgage bank in the district and no provision has been yet made facilitating the cultivators with long-term credits. This is becoming a cry in the wilderness.

Sir T. Raghaviah Garu, in his presidential address in the XVII Session of the Madras Provincial Conference observes "If the cultivating ryot is to be saved, he has not only to be kept alive, which is the main purpose of the short-term loan, but he should also be, in hopeful cases, enabled to be rid in time of the incubus of prior debts, which descending sometimes from father to son and gathering volume as they go, reduce the proprietor to perpetual helotry under the money-lender, for whom and not for himself he thereafter lives and works."

Indeed, this single sentence is educating three important things and conclusive by itself for the speedy establishment of an institution for long-term credit.

Lines on which such institutions could be established and worked to the advantage of the landholders and tenants.—To voice forth great men, the learned lecturer referred to above has clearly pointed out how the governmental measures such as the Deccan Agriculturists Relief Act and the Usurious Loans Act have proved futile and further suggests "The only real remedy is the co-operative movement which trains its members to learn

and cultivate self-help and self-reliance—". The lecturer here refers to the Royal Commission on Agriculture which observes, "We have no hesitation in recording our belief that the greatest hope for the salvation of the rural masses from their crushing burden of debt rests in the growth and spread of a healthy and well-organized co-operative movement, etc." And the lecturer further observes, "It is on these grounds that I would also press the inclusion of *land mortgage loans* in the programme of co-operation . . ." So, long-term credit facilities may be made on co-operative basis and the Government must fully aid this with their funds.

Working capital for land mortgage bank to be derived largely from—

(a) *Deposits.*—How far the entire working capital required for running land mortgage banks throughout the Presidency could be secured out of deposits is much to be doubted; but no propaganda is necessary to attract the deposits to our central land mortgage banks after they are established with the enormous funds that may be secured through debenture bonds. Naturally when long-term loans are issued to the members, the money thus issued for discharge of old debts goes back to their creditors and in their turn they must find some way of investing their money safely. These banks may very well attract them for they will no longer find a place of investment in the villages. So, as a matter of course, we get the deposits.

(b) *Funds from central institutions.*—When we want the co-ordination between various credit agencies, naturally the central institutions form the home of ever so many such institutions and as such their funds must be available for us at all times. But how far these funds will fulfil the demand is a question that can be dealt with only when the entire credit needs of the Presidency are thoroughly studied and estimated.

(c) *Debenture bonds.*—This method is being advocated by men of experience and culture. And as such ours will be only one of thousand voices. There would be free flow of money only if call is made attracting capital through debenture bonds. Secondly to satisfy the growing need this method alone would be suitable.

Need—Government guarantee for debenture bonds.—Yes. For both principal and interest Government guarantee is quite essential; at least, to satisfy the village folk, the debenture bonds should carry Government guarantee for some time.

Measures against unnecessary loss.—If the land mortgage banks are set on foot under the existing provisions of the Co-operative Act, rules, etc., there would be very little scope for loss to occur.

Terms for raising money by agricultural mortgage bank and also terms to lend out the same.—Deposits ought to be accepted for a period of not less than ten years and interest should be allowed at 4 per cent per annum. Funds ought to be obtained from central institutions by way of loans repayable after 15 years and the rate per cent for such loans ought not to go beyond 5 per cent per annum. Moneys should be got by way of debentures and the period of expiry of repayment over such bonds ought to be 30 years and the bonds ought not to carry a rate of more than 5 per cent per annum. These periods ought to be fixed according to the grades of persons to whom loans are to be issued in consideration of their repaying capacity. Deposits obtained for less than ten years ought to carry an interest of only 3 per cent per annum. The moneys thus raised ought to be lent out for different periods which should be calculated upon the value of the security offered upon the repaying capacity of the borrower. The interest charged on loans ought to be uniformly 6 per cent per annum and the margins between deposits and loans, loans from central institutions and those issued to members, interest paid on debentures and interest earned by the issue of loans, will be enough for the working expenses if one principle is strictly adhered to, i.e., deposits raised for ten years ought to be issued as loans only for a period of ten years and less but never more, and the same principle ought to be followed throughout.

5. *Estimate for credit.*—Yes. I have shown roughly the amount required for this taluk in my answer to question 1 in the sub-column "Amount required."

The method for obtaining such an estimate with reasonable accuracy.—It would not be possible to obtain the exact figure even if thorough enquiries are made by employing a large staff and moving from hut to hut in villages.

Only a rough estimate can be made. The figures that I have shown are taken out of the property statement of members of co-operative societies and also by the kind help of the agents of Nattukottai bank; and one or two private money-lenders of this local town.

(a), (b) and (c) *The amount of debt with land as security.*—I have shown already that the amount of loans outstanding on the mortgage of landed properties is roughly Rs. 17,04,280. (This is the amount noted in the property statement of members of 52 societies plus that obtained from Nattukottai agents and from private money-lenders of this town.)

(b) Nil.

(c) Total amount of loan as mentioned on page 476 of Rs. 21,31,220 minus Rs. 17,04,280 is roughly the figure (Rs. 4,26,940) incurred against other assets and personal securities. It has not been possible to get figures separately for each item of pledge.

Purposes.—These loans were incurred for all the purposes mentioned in your question from 'a' to 'h'.

Debt is due to whom.—The debt incurred is largely due to indigenous bankers and professional money-lenders in this taluk.

Rates of interest charged, etc.—Please see my answer to question 1.

Farmers' degeneration.—(Question 4, page 478, last line in paragraph 2). The speech of Sir T. Raghaviah Garu clearly points out that the cultivators live and work for the sake of their creditors and finally the lands pass on to the latter because there is absolutely no scope for the improvement. Speedy measures ought to be taken at least now to unfetter the poor peasants from the yoke of their creditors.

Removes the incentive to produce.—Naturally every moment is testing him. I should like to quote here my own observations during the course of my tour in this taluk the full text of which has appeared in the recent "Co-operative Journal" i.e., "I was surprised to hear that a certain member of our society who had borrowed Rs. 125 from a Nattukottai Chetti of this town has been sued for Rs. 950. It is only seven years since he borrowed the small sum of Rs. 125 and it has multiplied so enormously within seven years' time."

If the peasant's condition is like this, naturally he will grow desperate and there will be no incentive in him to exert himself to produce more; because however much he produces, it will not be sufficient to meet out the growing interest on his loans. At the same time he has to answer his large family, his courts and at the same time his creditors. All happen at one and the same time in this draughtful season. There is no hope, no emancipation. With all this, there are numerous toddy shops, one in every corner of a village. He is bound by society laws to visit the same and have a decent dose or two with his friends because the Government and the contractors are entirely depending upon these. Where is the incentive to work and produce more? Where is the efficiency? All gone into the toddy shops.

6. *Subsidiary industries existing.*—Supplemental to agriculture no such cottage industries are ever in existence in this taluk. Spinning and weaving are in existence in several villages but they are not taken as a supplemental occupation. Only a class of people have taken it up as their principal occupation.

Suggestions for establishing any such supplemental industries.—It is quite essential to establish some cottage industries as a secondary occupation first strengthening agriculture which supplies raw materials for industries.

Employment to the ryots during off seasons.—Gur-making and brass industries are in existence in this taluk and these may be developed along with spinning and weaving and the cultivating class might be employed in these during their off seasons. Also this taluk produces a large quantity of groundnut which is directly exported in entirety. Instead of this, indigenous oil extractors might be run by a big concern and some men can be employed in this for several months. Instead of groundnut, the oil may be exported and thus we can retain the sub-product, the oil-cake for the use

of our cattle. Anyhow subsidiary occupation is quite necessary; but first we want proper men to educate the cultivators on the lines of work. Co-operative societies will be suitable agencies to finance them for working capital provided influential and honest men take the lead. At the same time they must be at least small capitalists. Then joint loans could be issued to them from time to time to facilitate them to run the concern.

7. Relations that exist between co-operative banks and other banks.—Vide answer to first question. Each is functioning separately. But the co-operative central bank has got connexion with the Imperial Bank as overdraft is allowed by the Imperial Bank of India on the security of the promotes executed by the unlimited liability societies. The credit and debit account is useful for meeting urgent demands of short-term loans and payment of current deposits.

Competition between co-operative and other banks.—No such thing.

Financial concessions to co-operative societies.—Yes. All that go in to stimulate the co-operative movement are to be attempted. Because well-organized co-operative credit alone forms the most suitable agency to finance the cultivating class and this alone would bring about amelioration in the lot of the ryot. To develop this all possible financial concessions should be shown.

**Written evidence of M.R. Ry. G. SUBBA REDDI Garu, B.A.,
Revenue Divisional Officer, Cocanada.**

1.—Agricultural credit and credit facilities for small industries.

1. (a) The agriculturists, in most cases, spend their own money for expenses during cultivation. They do so generally by selling produce of previous years. In the case of middle class or poor ryots they borrow money from a rich ryot, or a money-lender on interest at the rate of 12 per cent per annum. There are also cases of borrowing money from co-operative societies and also from banks.

(b) For cattle and permanent improvements selling of previous years' produce or borrowing from others on interest is resorted to. In this taluk Government loans are not utilised to any appreciable extent.

(c) In cases of failure of monsoon or excess of rains, ryots borrow paddy itself for their sustenance on the condition of repaying about $1\frac{1}{2}$ times the quantity borrowed. For land revenue, etc., borrowing from money-lenders is resorted to where remission rules do not apply.

The rate of interest is generally from 12 to 18 per cent; the period of loan is generally from 3 to 6 years. Jewels and immovable property are generally given as security.

(d) Government have been granting loans for the purpose of agriculture and land improvement, etc., with a small interest of $7\frac{1}{4}$ per cent taking lands as security. Government loans are negligible in this district. Banks and co-operative societies on personal and land security with interest ranging from 9 to 11 per cent advance loans. Banks also take jewels as security. Bankers and professional money-lenders take interest from 12 to 18 per cent or even more and take lands and jewels as security.

(e) I cannot give any rough estimate as to the capital required.

(f) Ryots cannot borrow money so readily and in so short a time from Government co-operative societies or banks as from indigenous bankers and money-lenders. Time is required to follow rules in the case of loans granted by co-operative societies and banks. Bankers and money-lenders readily grant money but on compound interest for periods ranging from three to six months. Bankers, etc., evade taking partial payments with a view to getting more of compound interest. Less rate of interest is recommended in case of Government loans and the number of co-operative societies increased and the rate of interest reduced. As in the case of insurance companies commission agents instead of paid inspectors may be appointed so that they may take greater interest.

(g) There appears no co-ordination in the various credit societies.

2. (a) Ryots sell principal crops to merchants who take them to market for sale. Some ryots send produce to commission agents in the market who sell the produce in due course and take small profits including rents, etc., for the godown. In the case of paddy, ryots send it to the nearest mill and sell it wholesale in the village to merchants or in retail in their own shops in the market. It will not be successful if co-operation is aimed at in marketing produce.

(b) By selling the produce in the field the ryot gets the amount in a lump sum. In the case of sending produce to a commission agent also, the ryot is saved from the responsibility of remaining in the market and attending to the sale in person. He gets the cost of the produce almost in a lump sum in a short time.

(c) In the case of internal trade the finance is generally made by the commission agent to whom the goods are entrusted for sale at a certain per cent of the market value. Banks also advance moneys, 75 per cent of the market value, and the goods are kept by them. For foreign trade both the exchange bank and the Imperial Bank would according to the financial status of the merchant grant overdrafts without security of goods but in most cases they advance only 75 per cent of the market value of the goods taken as pledge by them.

(d) Banks and bankers do not seem to take any part in marketing produce.

(e) Internal remittances on account of trade are generally made either by cheques or hundis. The only facility now available is payment by cheques or hundis. The only defect in cheque remittances is that banks take advantage of charging unusual rates of discount. As cheque system involves transfer of money from one bank to another, charging of discount is unnecessary.

(f) Negotiable instruments in the internal trade enables the consignor to receive monies through the bank immediately the documents are presented without the necessity of waiting for the moneys till the goods reach the destination or taken delivery of by the consignor. The same facilities are also gained by the consignor. Reduction of duty on bills does not in any way help the extensive use of bills.

(g) The various forms of bills are—

(1) Demand draft payable at sight.

(2) Usance "D.P." drafts payable after the expiry of the period stipulated therein against the delivery of documents.

(3) Usance "D.A." drafts commenced to be delivered against acceptance of the drafts but the amount will be payable after the expiry of the last date of the stipulated time. The last two classes of drafts are governed by three days of grace, unless stipulated otherwise.

Demand draft.—(1) At sight of this, please pay* to 'X' or order for value of . . .

(2) "D.P." thirty days after sight to . . . documents to be delivered against payment.

(3) "D.A." thirty days after sight—documents to be delivered against acceptance.

(h) The present system appears satisfactory.

(i) In most cases all hundis covering goods despatched are discounted through a local bank. Hundis are generally held by banks and not at all sent to provincial centres.

(j) and (k) (1) Railway receipts, (2) bills of lading.

The same instruments are used for raising bills. In the case of inward goods the banks are not in the habit of financing on railway receipts and bills of lading held by party and only after the arrival of goods and stored under their custody. It would facilitate business considerably if the banks finance against the security of these instruments for the goods to arrive and take the goods as security after arrival for the amount advanced on those goods.

3. (1) Wet lands fit for raising dufassal crops cost Rs. 1,200 to Rs. 1,800 per acre.

(2) Wet lands fit for paddy alone cost Rs. 800 to 1,300 per acre.

(3) Dry lands fit for wet crops Rs. 400 to 800 per acre.

(4) Dry lands fit for dry crops Rs. 200 to 500 per acre.

The factors affecting such value are fertility of the land, irrigation facilities and classification of the land (inam, jirayati) and revenue payable to Zamindar or Government; it also depends upon the number of rich merchants and ryots in the village and neighbourhood.

(a) & (b) In the sale of land either for arrears of revenue or under court decree the amounts will be fluctuating due to keen competition or absence of competition while there will be no fluctuation in private negotiation.

4. No legal impediment.

No such banks.

Co-operative societies may be established to give long-term credits,

I have no experience in the field.

5. (b) By enquiry in the village and by reference to registration accounts.

(c) Can be known only by enquiry.

(d) Maintenance of family, trade and wreckless life may come under this.

(e) This debt is largely due to professional money-lenders and to a small extent to banks, etc.

(f) About 9 to 11 per cent banks.

12 to 36 per cent professional money-lenders.

9 to 11 per cent co-operative societies.

The methods are : In the case of professional money-lenders the interest is calculated by simplified form of 'rule of three' known in Telugu as "Dokadalu". In the case of mortgages of movables, the money-lenders give notice to the debtors and sell the jewels and in other cases they go to civil courts.

(g) Yes.

(h) Generally it takes away the incentive. If the period of lease is long, the tenant will have more interest to produce better yield.

6. (a) The following industries are supplemental to agriculture in this taluk :—

(1) Rice milling.

(2) Garden produce.

(3) Cotton ginning.

(4) Hand-spinning and weaving.

(5) Sugar refining.

(6) Extracting gingelly and castor oil.

(7) Fibre extraction.

(b) Gingelly, sugarcane, etc., can be encouraged by greater supply of water during second crop season.

(c) Small industries such as lace-making, and spinning may be encouraged. Middle class ryots out of sentimental objections do not undertake any such industries.

(d) & (e) No large amount of capital is required to start small industries. Small amounts may be advanced by Government or co-operative societies on the security of standing crops.

6-A. (a) The following other industries are prevailing: (1) dyeing, (2) spinning, (3) salting fish and (4) tanning.

(b) More investment is necessary for the industries mentioned in 6 than those mentioned in 6-A. As the small industries do not require great investment every farmer may take up one of the industries.

7. (b) The co-operative societies cannot always be depended upon as money will not be available at all times to meet the demands of the ryots. The rate of interest charged in small co-operative societies is Rs. 1-9-0 per cent which has to be reduced. There are no long-term loans in all these co-operative societies. It may be introduced to the advantage of the ryot.

(c) Societies are existing in every fourth village. The capital required may be three times the capital now invested.

(d) No.

The initial investment by Government must be increased a good deal so that the ryots may not wait till the subscriptions or debts are collected from the shareholders.

II.—Indigenous banking.

I cannot give any useful answers.

III.—Investment habit and attraction of capital.

1. (a) The following are the existing banking resources:—

(1) The Imperial Bank.

(2) Savings Banks.

(3) Co-operative societies.

(4) Government loans under the Agriculturists Loans Act.

(5) Life insurance companies.

(6) General provident fund.

(7) Postal cash certificates.

The above are the means by which savings are encouraged. The public have got full facilities for investments.

(b) No improvement is necessary in respect of the existing facilities.

(c) Rich people invest pretty large sums of money on jewels and on silver-ware. It is only the merchant class that make the aforesaid investment in large sums.

2. (a) Postal cash certificates do not seem to be very popular. Extensive advertisement of the rules, etc., may popularize the postal cash certificates.

(b) The rate of interest on postal cash certificates has to be enhanced and the mode of issue requires no revision.

(c) Yes—It is only Government servants that resort to investment in savings banks.

(d) The rate of interest, if increased, will attract the other classes.

(e) The postal cash certificates and treasury bills are not attractive as the rate of interest is very low when compared with the rate secured by private money-lending.

3. (a) There is now every facility for purchase and sale of Government securities. If the rate of interest is small it may not tempt the small agriculturists to invest their money in Government securities. It is doubtful if agriculturists will ever invest their savings in Government securities.

(b) There are no other securities.

(c) Moneys realized by sale of produce will partly be spent in the improvement of land, partly for the purchase of lands and partly for mortgaging lands for interest in case of savings.

(d) Farmers generally lend money to their fellow agriculturists. They invest surplus money in buying lands and lending for interest and also for the improvement of their lands. Agriculturists are generally not rich.

4. (a) The use of cheques in registered institutions is very common as there is no stamp duty on them.

(b) Merchants and bankers generally use cheques. The issue of cheques to Government servants and bank employees is not necessary.

(c) Vernacular scripts in banking can be introduced with advantage.

5. (a) Yes.

(b) Money-lending seems to be the best trade for the rich and investment of monies in productive undertakings can be done to a small extent if the people are educated.

(c) There are no branches of the Imperial Bank of India in this taluk. Opening of new branches in important centres facilitates transaction and trade.

Written evidence of **M.Ry. G. SRINIVASARAGHAVACHARIYAR** Avargal, Retired Deputy Collector and Assistant Registrar of Co-operative Societies and Secretary of the **Madura-Ramnad District Co-operative Federation, Limited, Madura.**

1.—Agricultural credit and credit facilities for small industries.

1. There is in this province no organized system for financing the agriculturist either for expenses during cultivation or for satisfying his other needs. His cultivation expenses and those relating to the satisfaction of his other special needs, such as kist, etc., are generally met from out of the grains stocked by him, which are not adequate enough except in good years. The system of paying wages in grain for some of the operations connected with cultivation, namely transplantation and weeding, is however coming into disuse and in several places money payments have to be made to get through the operations quickly. For these and other expenditure required for capital and permanent improvements moneys are wanted, but they are not available in all the villages or for all the agriculturists or to the required extent. Small loans required for cultivation expenses, when necessary, are generally obtained from the casual agriculturist money-lender of the village or in the neighbourhood, or from professional money-lenders who have established themselves in various centres. For bigger loans the agriculturist has to go either to his richer brethren who have an eye on his lands or to a co-operative society, if one should exist, or to professional money-lenders.

Small loans, which may be in the shape of either money or grain, are generally had by the middle-class ryots at interest varying from 12 to 18 per cent on pro-notes or as hand-loans, while, his poorer brethren can command credit, if at all, only on pledge of jewels and at interest varying from 18 to 36 per cent per annum. When these loans are obtained from professional money-lenders interest is generally deducted in advance. In other cases, the interest stipulated is payable along with the principal invariably from out of the proceeds of the ensuing harvest. The interest charged on loans for long term, which will rarely exceed three years, will vary from 9 to 12 per cent in the case of the rich and 12 to 18 per cent in the case of the poor. The security taken will invariably be one of simple mortgage to begin with and may become a usufructuary one in the course of years for failure to pay even interest. Only in the case of a few industrial or commercial crops such as tobacco, chillies, betels, etc., loans are obtainable on the security of standing crops at rates of interest which will be abnormal.

In the matter of agricultural finance, absolutely no part is played by the Imperial Bank of India. Joint-stock banks and other indigenous banks play but a very small part by catering to the short-term loan requirements of only their agricultural customers who happen to be close at hand. Co-operative societies, wherever they exist, are able to assist only a fraction of the agriculturists but not all, on account of the limitations which they are subjected to by their by-laws in regard to the amount of loan to be granted to a member and also of the total loan grantable to a society. On account of the delay involved in going through the various formalities, the ryots look up to co-operative institutions only for intermediary and long-term loans and rarely for short-term loans. Though Government are intended to finance agriculturists under the Land Improvement Loans Act and the Agriculturists Loans Act, very few ryots choose to avail of them on account of the trouble and delay involved in getting the loans.

For the efficient cultivation of wet lands a ryot requires on an average, not less than Rs. 30 per acre and for the cultivation of dry lands Rs. 10. The cultivation of garden and other valuable crops may cost from Rs. 50 to Rs. 250 per acre. It is not easy to forecast off-hand the amount required for capital and permanent improvements, which may vary in respect to each field and also from village to village.

The agriculturist now suffers for want of a convenient system for financing him both for cultivation expenses and for making capital and permanent improvements. His lot can be improved only by establishing co-operative societies in each village and also land mortgage banks at various convenient centres. He wants money for cultivation expenses at short notice and these

and other loans required by him can be provided for by co-operative societies if the members are educated and trained to give sufficiently early before the commencement of the cultivation season, or the time at which the money is required, a forecast of their loan requirements, both long and short term, with a correct statement of his assets and liabilities.

Even amongst the few credit agencies which are available here and there, there is absolutely no co-ordination. A certain amount of co-ordination is possible between the Government and the co-operative societies, if the former should utilize the latter as their agents for disbursing loans under the Land Improvement Loans Act and the Agriculturists Loans Act and also for recovering them.

2. So far as the districts of Madura and Rannad are concerned, the principal crop in the case of wet lands is paddy. This is either marketed in the neighbouring weekly markets or purchased by customary paddy merchants who visit the locality. In the case of dry lands, the principal crops are kambu, cholam, ragi, groundnut and cotton. The first three are so limited in quantity that no appreciable portion of them is available for sale. Groundnut and cotton are generally purchased by middlemen merchants on behalf of exporting firms which oftentimes finance them also. The growers of these articles are not yet habituated to the system of forming pools for the purpose of advantageous marketing and for which no facilities also exist. It will take a long time for the agriculturists to organize themselves for this purpose. A beginning may however be made by educating the ryots who are members of co-operative societies to avail themselves of the provisions of the by-laws relating to joint sale.

The agricultural population are not directly in touch with any banks or bankers or wholesale merchants or dealers. All transactions by producers with middlemen merchants are only in cash. The system of payments by negotiable instruments is unknown to them. The system of hundis or bills of exchange is prevalent only and that too to a small extent amongst the merchant class in cities. It cannot be introduced into villages until facilities for their encashment are provided close at hand. The Salem District Co-operative Bank has recently introduced, as an experimental measure, a system of paper money and if it should prove successful, it will be a great boon to the agricultural population.

3. Classified wet lands having an assured water-supply, cost about Rs. 500 to Rs. 1,000 per acre if they are single crop and about Rs. 1,000 to Rs. 2,000 if they are double crop. The price of other wet lands range from Rs. 50 to Rs. 500 an acre. Dry lands which are fit for cultivation of commercial crops range in value from Rs. 100 to Rs. 500, while the value of other dry lands varies from Rs. 10 to Rs. 50 per acre. The factors affecting land value are (1) nature of the soil, (2) facilities for irrigation, (3) marketing facilities, (4) demand for the land and (5) circumstances of the seiler. Lands sold in Government auction for non-payment of revenue generally happen to be inferior in quality and they fetch a price ranging from the amount of land revenue due thereon to something above it. The value of land realized by sale in court auction is generally slightly less than that realisable by private negotiation.

4. There is no legal impediment as to mortgage of land and agricultural holdings. There are yet no land mortgage banks or agricultural banks functioning in this part of the Presidency for the provision of long-term credit. The leading co-operators of this province have sent up to Government a scheme of land mortgage bank which may be given effect to as early as possible.

5. No attempt at estimating the existing indebtedness of the agricultural classes has yet been made. A beginning has now been made, at the instance of the Registrar of Co-operative Societies, to get an accurate estimate of the indebtedness so far as the members of co-operative societies are concerned, by means of demanding from each member annually, full particulars of his assets and liabilities. But to find out the actual indebtedness of the villagers as a whole, a detailed economic enquiry must be made by means of officials or non-officials specially deputed for the purpose. It may be safely asserted that, on an average, the indebtedness of an ordinary agriculturist comes to nearly 40 to 50 per cent of the value of his property. On

account of the smallness of their holdings, which leaves them little or no surplus even in good years, landholders are obliged to mortgage their lands which, in many cases, pass into the hands of their creditors gradually.

6. There are no small subsidiary industries practised by the agriculturists in this part of the province to any appreciable extent. The possibilities of finding out small subsidiary industries suited to each particular area must be investigated by an expert of the Industrial Department, who should be asked not only to introduce them but also to supervise and suggest improvements. The best subsidiary industry suited to a farmer is spinning. As this does not require any large capital and as the spinner can have his own raw-cotton in many places it may easily be introduced, provided simultaneous arrangements are made for the marketing of the yarn spun and for its conversion into such cloths as may be desired by the farmer. Other subsidiary industries that may be introduced may require some working capital but not large. And this may be provided for by co-operative societies now existing or that may be hereafter established. Industries like rice-milling, cotton-ginning, etc., exist in town or quasi-town areas, but they are mostly in the hands of non-agriculturists.

6-a. The only small industry practised on a large scale in this part of the province is the hand-loom weaving. The products consist of ordinary coarse cloths more suited to the agricultural population.

7. The co-operative banks have little or nothing to do with banks other than the Imperial Bank of India, from which they get some credit accommodation by way of overdraft. They are generally able to command the necessary amount of finance required for short-term loans. For providing them with the capital required for grant of intermediary loans, they must be enabled to receive as deposits trust and similar funds, the corpus of which is not ordinarily withdrawable. Co-operative societies can be made to attract better finance if income from investments therein is exempted from assessment to income-tax.

II.—Indigenous banking.

So far as Madura and Ramnad districts are concerned there are only a few indigenous banks established in town areas. They rarely assist the agriculturists. They are more generally availed of by the merchants and wage-earners.

III.—Investment habit and attraction of capital.

1. The existing banking resources consist chiefly of deposits and shates. There are no means or institutions existing in villages except perhaps co-operative societies, for encouraging savings and investment habit. A few such institutions exist in towns. Even there people generally join more for borrowing than for accumulating their savings. People who have got money to save are generally prone to invest a part of it in silver and gold and the remaining in the purchase of lands, which they consider to be the safest investment under existing conditions. Only persons who cannot find immediate investment in these directions and Government servants who are debarred from lending privately, go in for postal cash certificates. If the cash certificates are to be made more popular, interest rates ought to be increased.

Postal savings banks are generally resorted to only by men of small means and also by Government servants belonging to the subordinate ranks. They can be made more popular if the rate of interest is increased and interest is calculated on daily balances and if facilities for more frequent withdrawals of moneys are afforded.

2. The institution of postal cash certificates must have affected the flow of money into banking institutions. To what extent it has affected can be seen only by a comparison of banks and postal figures.

Small agriculturists have generally no savings to invest.

4. The cheque habit is prevalent only in town areas and with the merchant population, public servants and other educated men. The abolition of stamp duty has tended to the increased use of cheques by these classes of people.

5. The banking and investment habit in India is no doubt of slow growth. It is due partly to illiteracy and partly to want of facilities. People can be encouraged to invest their savings in productive undertakings if the Government should take the initiative and demonstrate to them the profitable nature of such undertakings.

The opening up of new branches of the Imperial Bank of India has resulted in affording facilities only to merchant population for borrowing and to other joint-stock banks for expanding their transactions.

The salvation of the ryot population lies only in co-operative societies, which should be established at the rate of at least one for each revenue village with membership not to exceed 100 and in land mortgage banks which must be established at convenient centres, with provisions in their by-laws for catering *without delay* to the full loan requirements of members, short, intermediary and long term. The restrictions in the existing by-laws of rural societies fixing the maximum borrowing power of individual and of society at an arbitrary figure in terms of so many rupees must be removed, as they stand in the way of many a solvent ryot joining a co-operative society. The only restriction that can be imposed as condition precedent to grant of loans to an individual or a society must be his or its capacity to repay the loan taken within the period that may be stipulated. In the case of loans to individuals, the amount to be granted will vary with the requirements of each individual and it cannot be specified by any fixed figure, which cannot be altered without invoking the sanction of the Registrar every time an increase of it may be found necessary. In the case of a society, the maximum borrowing power may be limited to one-eighth of the total net assets of the members as ascertained from the correct property statements to be compiled from the statement of assets and liabilities required to be furnished by each member annually to the society.

Written evidence of M.Ry. K. SRINIVASAN, B.A., Inspector, Salem District Bank.

I.—Agricultural credit and credit facilities for small industries.

1. Agricultural credit is obtained by ryots from the following stated according to importance :—

Both Pro-note and mortgage.	1 to 3 years and occasionally 10 years.	(1) From private well-to-do village ryots—for (b) and (c) needs—capital improvement at 10 per cent and special needs at 12 per cent interest (50 per cent of total needs).
Pro-note.	10 months and 2 to 3 years.	(2) From professional lenders, i.e., village bankers on kandu system and Chetti bankers from 15 to 25 per cent interest. Kandu works out to 25 per cent interest (30 per cent of total needs).
Mortgage.	5 years and 1 year.	(3) From rural co-operative credit societies—mostly for improvements and occasionally for expenses during cultivation. As yet co-operative machinery does not lend itself to prompt borrowing. Rate of interest is however the lowest, i.e., 9½ per cent (20 per cent of total needs).

Government also are giving takavi loans; it may supply about 2 per cent of total needs for improvement. But it is unpopular because borrower has often to spend 10 per cent of sum required in order to get a loan sanctioned.

Salem district (Rasipur-Namakkal taluk only).—Rs. 4½ lakhs a year of which Rs. 30 lakhs is required for short-term needs can be safely lent. About Rs. 15 lakhs may be required for agriculture, another Rs. 20 lakhs on pledge of produce, etc., for trade purposes and yearly Rs. 10 lakhs for land improvement, etc. But Salem district being rain-fed, the actual amount required will vary according to the seasons.

There is no co-ordination between any of the financing agencies. Not even Government and co-operative societies co-operate to consult before giving a loan for land improvement. It is unhealthy the peasant looks upon takavi and co-operative loans as tempting methods of loaning.

Attempts are being made by co-operative societies in the riverside, to scientifically estimate agricultural needs and finance them on lines laid down by Diwan Bahadur R. Ramachandra Rao. But as yet the system is only begun. Financing by forecast roughly following the Registrar's circular will do for short-term needs. For long-term requirements, for land improvement, etc., special mortgage banks should be established.

2. Licensed warehouses where ryots can deposit their goods as pledge or as lodgment under Government supervision will be a distinct benefit. It will save several ryots from resorting to Chetti banks, etc., who charge at usurious rates of interest. But these warehouse sought also to help the ryots in getting good markets for their wares.

If Government can not open such warehouses themselves they can build warehouses at the instance of associations that are willing to run them and let them to these for rent.

3. In Salem district (Rasipur-Namakkal taluk) price of land does not depend on the crop but on availability of water, almost all lands being rich in soil contents.

Dry lands sell from Rs. 100 to Rs. 300.

Well irrigated from Rs. 200 to Rs. 400 + cost of well.

Irrigated from Rs. 1,500 to Rs. 4,000 according as they are fit for paddy, cane or also for betels and plantains.

Difference in sale price between a, b and c forms is not much, (a) sales being only in bad prices are naturally low. But such sales occur in few years.

(b) Sales being generally those of people of bad credit fetch say 10 per cent lower than market value.

(c) Private negotiation fetches economic price (i.e., 10 years' average rental). But in good years well-to-do ryots are willing to purchase lands even at a premium of, say, 10 per cent.

4. There is no legal impediment to mortgaging. But in regard to agricultural holding fragmentation is going on. The old rule that subdivisions should be sold only to some old pattadars and to outsiders only if these decline should be re-established. In fresh surveys, survey numbers should include economic holding plots only and grouping of holdings should be enlarged before survey by Government agreeing to effect such transfers free in the sub-registrar's offices.

Land mortgage banks should be affiliated to a central financing agency or bank which will lend either from deposits received from other banks or borrowed on debentures—

Deposits 5 per cent.	} Lending rate 7½ per cent.
Bonds from central institutions 5 per cent.	
Debenture bonds 6 per cent.	

It is enough if debenture bonds are guaranteed interest. But such bonds ought to be redeemable at par at will, say after 30 years. But they can meanwhile be recovered in open markets by the operation of sinking funds maintained by the central land mortgage bank. Such debentures may be also declared as approved securities.

The question of security and recovery is as difficult as it is important. Improvement in the record of rights should be suggested by experts in the line. But in regard to foreclosure, each instalment due ought to convert itself automatically by law into a decree (after three months' default) and should be executed by revenue sale. The bidder at the sale will get the land subject to the encumbrance but will be entitled to the un-expired terms of the original loan.

5. Yes. In Salem district as verified from the proposals (below) of co-operative societies debts in relation to total assets are :—

	POOR.	MIDDLE CLASS.	RICH.
Dry area.	30 per cent mostly houses and movables; debts are unproductive.	30 to 50 per cent but nearly half of this is productive and floating.	20 to 50 per cent except when for land improvement is unproductive.
Wet area.	10 per cent un-served 50 per cent served 20 per cent	Do. served 50 per cent un-served 50 per cent	10 to 30 per cent Do. served 70 per cent un-served 30 per cent

In dry areas in normal years middle classes are much happier. But if there be a series of bad years, however, they are involved in debts.

The Co-operative Society property statement well prepared is a representative index of each ryot's economic status

In a few villages enquiry into history of debts was made and proved to be thus :—

POOR.	
Creditors	{ Death and marriage 40
	{ House building, etc. 30
Kandu banks 80 at 15 per cent.	Wasteful habits or indiscretionately. 20
Co-operative Banks. 20 at 9 per cent	Floating for upkeep, etc. .. 10
100	

MIDDLE CLASS.	
Chettis 30 per cent interest 8 to 24 per cent.	Death and marriage 30
Co-operative Banks. 9½ per cent interest 20 per cent	House building 20
Well-to-do villagers. } 50 { 10 per cent 12 per cent	Surety 20
	Business 30
100	

WELL-TO-DO	
Chettis 20 per cent 15 to 18 per cent.	Death and marriage .. 20
Villagers 10 .. 12 per cent	Litigation 20
	House building 10
Big landlords 70 per cent 10 per cent.	Business 50

In each of these cases interest is payable at least yearly; failing, compound interest is charged.

Yes. Even good farmers have to become tenants in rain-fed tracts to creditors and lands are sold to them in case a son succeeds to a father's estate with a debt and serious bad seasons follow. Even four years will do to ruin a ryot.

6. Only dairy farming of a crude and primitive type is prevailing and a bit of sheep-rearing.

Yes, poultry farming, spinning and dairying only can be organized. Co-operative non-credit societies controlled by professional unions of constituent societies and directed by an expert professional officer in each district area will work well.

7. The difficulties in financing long-term needs are nil in that they are not really long but only intermediate. Financing of short-term loans has been already dealt with in reply to Question 1.

In Salem alone leaving long term needs out of account to finance short and intermediate needs excluding the industrialist needs Rs. 50 lakhs is needed. If long term and industrial needs are also taken into account it will easily exceed a crore.

Yes, apart from recognizing debentures as trustee securities, it will be well if Co-operative Central Banks are permitted by law to draw bearer cheques on themselves or I.O.U.s. and issue it to societies and if such instruments are made acceptable in paying for kist only.

II. — Indigenous Banking.

1. The banker proper lends only for short-term credit and rarely for intermediate purposes not exceeding three years.

- (1) They lend on surety kandu and *pan*.
- (2) On pledge of goods and jewels, groundnut, cake, oil and paddy.
- (3) On mortgages (especially for securing floating debts).

2. Nearly 30 per cent of inland trade and 50 per cent of agricultural needs are financed by these village and Chetti banks. In Namakkal and Rasipur alone Chettis deal over 10 lakhs in S.T. only.

3. (a) Whereas co-operative societies all told lend only inside of 10 lakhs, Chetti banks lend at 86 per cent but collect.

(b) Fifteen to 18 per cent and if it goes to court usually get decrees at 24 per cent. They are more vigorous at collection than co-operative banks and get back 50 per cent of demand in time and at any rate 90 per cent of interest due. But in cases of defaulters they have to spend perhaps thrice as heavily as any co-operative society for collection.

Chetti banks realizing as they do Rs. 180 per thousand even a small bank of Rs. 50,000 transaction gets Rs. 9,000 per annum and often spend in establishment thus:—

	Rs.
(a) Manager	30—40 grade.
(b) Clerk	15—20 ..
(c) Peon	7—12 ..
(d) Office, etc.	5—10 ..
(e) Contingencies	10—20 ..
Total	67—102

i.e., 80½ to 1,22½ per annum thus even if deposits are charged 9 per cent, the proprietor has still a surplus left of Rs. $\frac{3,276}{1,776}$ at a maximum minimum.

Whereas a co-operative society of similar transactions could earn only about 700 over rates paid for deposit and supervision leaving only a slender margin to pay the establishment $(9\frac{1}{2} - (7\frac{1}{2} + \frac{1}{2}))$ per cent on Rs. 50,000. Of this $\frac{1}{2}$ dozen half profits having to be carried to reserve fund, establishment has to be paid out of general assets even.

There are yet no joint stock banks in Salem district lending to ryots in villages Chetti banks do not borrow from the Imperial Bank, but from other Chettis, if at all from Madras. None of these have any connection with co-operative banks.

4. Hundis are in fair use in urban areas like Namakkal and Salem. They issue Hundis at sight (Demand drafts) to merchants even free of charge for the consideration of a big oash doing transit. No receipts or pro-notes are given for deposits received; nor are even deposits freely received in lending areas.

5. Loans are lent for kandu repayable in 10 months at Re. 1 a month for Rs. 9 lent once. In some cases even Rs. 1-4-0 to Rs. 1-8-0 is deducted.

Thavansi at 15 to 16 per cent. Interest is taken for the stipulated months in advance. If loan is repayable in 3 months Rs. 4-8-0 will be taken off a centum. But if interest is paid monthly penalty is waived generally.

Village non-Chetti banks however receive deposits from local villages also, more in a spirit of obligation than to profit on receiving. They are generally content to lend their own.

6. Interest in kind is going into disuse. But where it obtains it works out 25 to 40 per cent. But if prices fall next year the real money rate of interest earned generally diminishes.

7. No. The prejudice is against all creditors generally. Nevertheless bankers command much respect and bank agents are obeyed in all interests. They have sufficient protection at law. They want no further help; but in case Chetti banks also offer to

lend at co-operative rates, there is no reason why the privileges of the Act should not be given to them for registration and decrees. Indeed if the offer is made many are likely to accept it, nine and a half per cent being indeed very decent if considered as a net earning. They will agree to publicity to avail of these advantages if the revenue is also exempt from income-tax.

8. Out of the figures given in I (3) (4) for a bank of Rs. 50,000 only 3 per cent prove bad debts in three years. The bad debt accumulates arithmetically only in three years whereas interest grows at compound rate. A bank with a capital of Rs. 30,000 earns each year nett, not less than Rs. 2,760 after allowing at 9 per cent, i.e., at nearly from 12 to 13 per cent on their capital on an average.

9. Indigenous banks lend even more boldly than co-operative banks; but not all of them do so. Certainly in many villages capital is available, but not at 9 to 12 per cent for all. Nor could the entire capital be tapped at 12 per cent by individual earners.

10. The present Chetti bank system of credit through broker banks at Madras works alright. The Bank at Madras acts as deposed to the mufassal bank. If district branches of central banks are opened, the Madras broker will be certainly eliminated; but care should be taken to transfer this lowered cost of credit to ultimate borrowers. Will individual banks agree to it easily, I wonder.

Branch banks ought not to lend to parties outside of town individually except to bankers. But they can discount produce and bills, hundies and pro-notes of all solvent people.

No capital is generally idle with indigenous bankers except in years of bad crop, in which case they lower rates and lend freely. No bank money flows to provincial towns; but only of the non-banking middle classes.

III.—Investment habit and attraction of capital.

1. Deposits to private banks are not much; people seldom trust these banks, except at the banker's personal wish, i.e., business commands no "*credit*."

The Savings Bank and the cash certificate are the only two ways of saving. Co-operative banks in towns freely encourage thrift and deposit, but only for the rich.

2. Not certainly in the village. Postal cash certificates are known, but not yet fully popular. It may be raised to 6 per cent or at least declared free from debt or attachment up to Rs. 500. This will induce the poorest to deposit in postal cash certificates.

3. Villagers are not likely to go in for societies for capitalization when there are village rural societies that can do it through their district central banks.

Reserve fund of co-operative societies can be invested in approved securities (up to 5 per cent) if a society so pleases—

Class.	Mode of investment.	Mode of expenditure.
Brahman	Deposits in Savings Bank, in lands, on pro-notes.	Spends on jewel, marriage or invests on land or house.
* Non-Brahman middle classes.	Mortgage or pro-notes; invest on leasing lands.	Utilise as capital for agriculture or trade and privately invest on land.
Merchants	Promoting a business ..	With profits take to banking or industry.
Poor	Lend on jewels or board as gold or jewels.	Waste in liquor or drink; occasionally build houses; leave out lands and ultimately enrich.
Very poor	Hands	Purchases in the cattle and becomes a leasing farmer.

Farmers lend to fellow ryots at 10 to 12 per cent or on land at over 6 to 9 per cent.

4. Cheque-habit is not yet universal but is gradually spreading—Abolition of stamp duty on cheques is a right measure—Co-operative banks are not keeping current account as freely as they can. The reason is illiterary.

5. People understand banking and investment. But land is unprofitable, industry closed and lending too technical and risky. Hence the lack of development. The remedy is universal education.

National insurance is a sure form of providing compulsory universal thrift. Such capital can be used for long-term agricultural loans and ventures.

Propaganda for lending capital for debenture is not bad, but unnecessary.

Opening of the Imperial Bank's District branches. The effect has been good but could have been better if it had consistently taken pains to come down and help indigenous bankers and people diligently. If the Imperial Bank is to be a banker's bank more branches are not needed, but only one in each district headquarter and major municipal town and no more.

**Written evidence of E. H. M. BOWER, Esq., B.A., LL.B. (Lond.),
I.S.O., M.L.A., Registrar of Joint Stock Companies, Madras.**

I.—Agricultural credit and credit facilities for small industries.

1. Of the 770 registered joint-stock companies working on the 31st March 1929 in the Madras Presidency there are very few concerns which have for their special object the rendering of help to the agriculturist in obtaining finance for expenses connected with cultivation, permanent improvements to land, or for other special needs. The number of companies which afford facilities for the advancement of small industries is likewise not appreciable. A list of these concerns is * annexed.

With the growth of co-operative concerns which provide specifically for the needs of the agriculturists it is unlikely that there will be any impetus in the formation of joint-stock concerns started with the same object in view.

2. The only remarkable feature in the working of banking and loan companies in this Presidency is the existence of "Nidhis", a class of concerns peculiar to this Presidency. The "Nidhis" are but a class of banking and loan concerns, the features peculiar to them being that they allow the return or withdrawal of their share capital unlike joint-stock concerns. Their object also is to enable persons to secure loans at favourable rates of interest on the security of immovable property, jewels, Government promissory-notes, deposits made and stock-in-trade. Of the 324 banking and loan concerns working on the 31st March 1929, 258 are "nidhis" and of these 120 or nearly 50 per cent are in the Coimbatore district. The nidhis in the Coimbatore district are scattered throughout the villages in the district and they have apparently been of great assistance to the ryots.

Of late the nidhis in the Coimbatore and Salem districts have begun to conduct what is called "Ela Chit Business" and they carry on different kinds of chit transactions and it is this chit business that appears to be the most inviting and popular branch of work. To quote a specific instance, the growth of chit business of a certain company is exhibited in the following statement:—

					Rs.
Chit Deposits on	10th June 1926	..	..	..	32,357
Do.	10th June 1927	..	..	..	61,945
Do.	30th June 1928	..	..	..	92,376
Do.	30th June 1929	..	..	..	1,30,718

and the directors in their report state that the chit business gives them a major portion of their profits and that most of the constituents find in it a very convenient combination of a savings deposit account and of loan account that gets discharged automatically at the end of a prescribed period. In the same company the directors state that next to chit transactions comes the gold loan account and they comment as follows in respect of this:—

"The fact that we are issuing loans of sums less than Rs. 200 and for periods of less than three months is an advantage that is not available at the Imperial Bank. Our gold loans are consequently very popular."

II.—Interest.

The interest charged on loans by nidhis in the Madras Presidency varies from 6½ to 12 per cent and the interest allowed on deposits varies from 4½ to 7½ per cent.

III.—Competition between joint-stock banks and co-operative banks.

There is competition between joint-stock banks and co-operative banks and it would appear that joint-stock companies are more popular since there are better facilities in obtaining loans from a nidhi than from a co-operative concern, the better facilities being in the matter of time involved in obtaining loans, the repayment of loans in easy instalments, the long duration (seven years) allowed for the repayment of the loan, the liberal valuation of

the property mortgaged and the directors and other constituents of a joint stock concern having their own way of running the business without interference or instruction from any outside body like the Government or the Registrar.

SUB-ANNEXURE 1.

District.	Name of Company.
1. Madras	All-India Crop Insurance and General Developments, Limited.
2. Do.	Agriculture and Live-Stock Improvement Bank, Limited.
3. Po.	Industrial and Agricultural Bank, Limited.
4. Kistna	Kalavapudi Agricultural Improvement Company, Limited.
5. South Kanara ..	Canara Industrial and Banking Syndicate, Limited.
6. Tellicherry ..	V. G. Industrial and Banking Company, Limited.
7. Do.	Kokallur Agricultural Society, Limited.
8. Tinnevely ..	Sri Gomathi Vilas Vivasaya Company, Limited
9. West Godavari ..	Ciroars Agricultural Developments Corporation, Limited.
10. Do.	Narsapur Agricultural Company, Limited.

N.B.—How far these companies actually help the agriculturists is not, however, known.

Of the above companies No. 1 is typical. It was registered only recently (17th April 1929). The company proposes to issue what are called crop insurance policies or C.I.P.'s to all cultivators or owners of land by not only guaranteeing compensation of not less than double the rate of premium paid in a year when crops failed by any cause whatsoever, but also the payment of a quinquennial bonus, whenever declared by the company together with the privilege of being entitled to a timely loan from the company to resuscitate their farm or enlarge their real estate to an extent of not more than Rs. 25,000 to each individual at a normal rate of interest of six per cent per annum and of nine per cent, when buildings have to be erected or improved. The company further proposes to help the agriculturist and the C.I.P. holders in the matter of the general development of the land by the introduction of the new scientific methods of agricultural operations such as the increase of water-supply from wells by subartesian bores, the supply of improved tillage implements and machinery, the conservation of soil-moisture, the prevention and cure of crop pests and diseases and the study and scientific application of the moisture requirements of crops, etc.

**Written evidence of M.B. Ry. T. K. SRINIVASA AYYAR Avargal,
B.A., Assistant Registrar of Joint Stock Companies, Madura.**

I.—Agricultural credit and credit facilities for small industries.

1. (a) *Expenses of cultivation.*—The smaller ryot generally goes to the village sowcar (a rich ryot generally assumes this roll) and raises loans at rates of interest of generally 18 per cent per annum; even if rates of interest be smaller in co-operative societies, the ryots generally avoid the societies as they find it impossible to keep to dates of repayment.

(b) *Finance for capital and permanent improvements:* The smaller ryot never does any permanent improvement to his holding but is content to get on with as little expense as possible and is satisfied with the yields that the lands give without special improvement.

(c) For special needs also the ryot goes generally to the village sowcar and sometimes to Chetti bankers in towns and in the latter case high rate of interest about 24 per cent per annum is generally paid. The difficulty in dealing with the small ryot is that he is averse to keeping to fixed dates of payment or rather he is unable to keep to those dates and any provision for penal rates in default of payment on the due dates makes him suspicious and he does not realize that even with the penal rates it is profitable to borrow from co-operative societies than from the local sowcars. I have known cases in which after getting loans from co-operative societies and making default of payment of one or two instalments, ryots have taken loans at much higher rates of interest from local sowcars for clearing the loan taken from the society.

2. (a) *Marketing of crops.*—In the case of the small ryot whatever crops can be sold after reserving the quantities required for consumption in the year is sold on the field itself immediately after the harvest to merchants who go with cash for the purpose and buy at very favourable rates. In some cases the crops are sold to neighbouring ryots even before harvesting and is only the rich holder that reserves the crops until a favourable market is secured.

The system of issuing hundis is very rare in the rural parts.

4. *Mortgaging of lands.*—There are no legal impediments to mortgages of land and of agricultural holdings.

A land mortgage bank is a rarity here; and one that was started a few years ago in Kistna district is understood to be still in an infant stage. The loss of capital invested in joint-stock companies which has unfortunately been the experience of several Indian capitalists makes people generally averse to invest capital in any new venture and the want of capital in its turn spoils such ventures.

6. *Subsidiary industries.*—For a small ryot there is practically work in the fields all the year round; in seasons of non-cultivation he has to attend to the levelling of the land and minor improvements which he can effect by his personal labour without extra cost. I think that it is not possible to make him attend systematically or to any appreciable extent to any subsidiary industry.

II.—Indigenous banking.

This is very rarely found in villages, the village sowcar limiting his transactions to merely lending money for one agricultural season and generally realizing the same at the time of the harvest.

In towns these bankers are generally lending money for short-terms on high rates of interest but except in a few cases they are not serving to finance trade, etc. These bankers however find full use for the capital invested by them which is generally not much, and no capital is lying idle with them.

III.—Investment habit and attraction of capital.

1. The habits of investments are rare and even in cases where they exist the difficulties of realization when the money is needed and the trouble that has to be taken in realization militate against the popularity of investments. The mass of the people have yet to understand the fluctuations in the value of securities and any large fall in value enhances their fear against investments.

People are no doubt beginning to give up the practice of hoarding or investing large sums in silver and gold but except to the more literate of the population sound investment is still a problem.

2. The mass of the public have not yet taken to investment in the post office savings bank or in post office cash certificates as the interest in the former case is only a nominal one and as in the case of the latter the proper safe custody of the certificates for a period of five years is a problem to several villagers whose houses are open to attacks by white ants and fire and who generally find difficulty in preserving paper of any kind inclusive of currency notes.

3. The system of investing money in Government paper is generally not known even in towns except to a few people and I have noticed that even postmasters through whom such paper can be got are in several cases ignorant of the rules.

Surplus money in a prosperous year.—The ryots generally fritter away surplus money, if any, that they get in a prosperous year and generally several items of expenditure are postponed from year to year against the occurrence of such a surplus.

5. *New branches of the Imperial Bank.*—The opening of new branches has no doubt tended to increase facilities in trade but has at the same time resulted in the exposure of the financial hollowness of several merchants who were until they began to have dealings with Imperial Bank, supposed to be financially sound. The net result is that the services of the bank are not being fully utilized by the Indian merchants.

Written evidence of M.R.Ry. G. T. CHERIYAN Avargal, B.A.,
Assistant Registrar of Joint Stock Companies, Calicut.

I.—Agricultural credit and credit facilities for small industries.

1. Joint-stock banks in Malabar lend money on the pledge of jewels and other securities. Money is not generally borrowed for agricultural purposes and banks are mostly resorted to for the purpose of borrowing money for trade purposes. For agricultural purposes and for land improvements money is generally borrowed under the Agriculturists Loans Act and the Land Improvement Loans Act, whereby the public get loans at a cheaper rate of interest. Co-operative societies also contribute largely in helping agriculturists to get a loan at a cheaper rate of interest. As the banks demand a higher rate of interest people take a loan from these banks only as a last resource, when they cannot get a loan either from Government or from co-operative societies.

7. There is no competition in this district between the co-operative and joint-stock banks. Registered co-operative societies are allowed the concession in search fees and registration fees when any encumbrance certificate is required for the purpose of raising a loan or when any document is registered for the same purpose. These societies no doubt contribute a good deal to help the agriculturist to raise loans without much inconvenience and hardship. Co-operative societies for agriculturists alone will be desirable.

It appears to be highly necessary that the indigenous banks are made to associate directly with the Imperial Bank as such a course would develop a quicker and more economic working of the former banks. At present hundi merchants and private banks demand an exorbitant interest and people generally dread to go to these people when they want to raise a loan. Debt is incurred mostly for the purchase of seeds and manure and of cattle for ploughing.

**Written evidence of M.R.Ry. K. RAMALINGAM PILLAI Avargal,
B.A., Inspector of Registration offices, Madras.**

I.—Agricultural credit and credit facilities for small industries.

1. (a) Major portion of the expenses during cultivation is paid in kind (corn) which the ryots generally stock during harvest season. For minor expenses such as inams to coolies and for the purchase of bulls, they generally sell a portion of the stock for meeting such expenses. For major expenses for purchase of groundnut cakes, cotton seeds, they generally get the required stock from merchants on credit and discharge the debt during harvest season.

(b) *For capital and permanent improvements.*—Ryots who can command credit obtain money from fellow ryots who have got money dealings at about 9 per cent per annum. Persons who cannot command credit borrow money on the pledge of jewels. Persons who cannot pledge jewels resort as a first recourse to bankers who are generally Nattukottai Chettis and borrow money on additional personal security, the rate of interest ranging from 18 to 24 per cent per annum. These bankers generally do not lend money on mortgage deeds considering the tedious process involved in the realization of the money if they have to resort to courts.

(c) The first instalment of land revenue generally falls in the month of January when no crops are generally harvested. The ryots generally borrow money from paddy merchants promising to sell the paddy at a less rate than the market rate. If they resort to banks the rate of interest will then be unusually high ranging at times from 24 to 36 per cent. The lowest rate of interest charged in the district of Tanjore is from 9 to 10½ per cent.

2. The ryots who can pay the revenue from other sources stock the grains during harvest season with the object of selling them in the months of July or August when the price of grains is generally at a high rate. Others sell the grains immediately on harvest and pay the kist and discharge the debts incurred by them for the cultivation of lands.

3. The value of land per acre in the Tanjore district for double crop wet lands ranges from Rs. 1,500 to Rs. 2,000 per acre, for single crop wet lands from Rs. 500 to Rs. 1,000 per acre and dry lands which are fit for plantain cultivation are generally valued at Rs. 1,000 per acre. Other dry lands sell between Rs. 300 and Rs. 500 per acre. The factors affecting such value are existence of large number of capitalists who are inclined to purchase lands, (2) proximity to towns so that the articles raised may be easily disposed of, (3) irrigation facilities and (4) facilities of labourers. The value of land purchased by private negotiations fetches the highest price. The value of the land sold by a court decree does not fetch the highest rate for want of due publicity as lands are generally sold in the court's compound.

The land sold by the Revenue Department for default of payment of kist brings the highest rate as under law it is free from previous encumbrances.

5. Ninety-five per cent of the ryots are debtors which can be made out from the registration records. The major portion of the debt incurred by them is due to the failure of monsoons and to the expenses incurred on account of marriage and other social functions and to the education of children. A major portion of the debts incurred by them are from professional money-lenders. Rate of interest charged by those persons will vary from 18 to 24 per cent. The ryots have no other go than to dispose of lands for the discharge of the old debts.

The land does not pass from creditors to money-lenders as the land does not fetch more than 4 or 5 per cent for the investment.

III.—Investment habit and attraction of capital.

1. *Imperial Banks—Indian Bank—National Bank—Private banks of Nattukkottai Chettis and money-lenders.*—There are ample facilities for investment of money in the banks. People do not generally invest the money in the banks.

2. Postal cash certificates are not popular on account of the low rate of interest. Only officials and vakils make use of this system. This can be encouraged if the rate of interest is increased. Ryots who can save money think of no other kind of investment than purchasing the lands, as they consider it a reliable and permanent investment though the outturn is from 3 to 6 per cent.

3. Farmers generally lend money to fellow agriculturists and the rate of interest ranges from 9 to 12 per cent. The surplus of the prosperous year is generally invested in the improvement of lands and houses.

Written evidence of P. R. de REBELLO, Esq., B.A., Assistant Registrar of Joint Stock Companies, Coimbatore.

I.—Agricultural credit and credit facilities for small industries.

No doubt the joint-stock banks play a great part in the matter of granting loans and providing capital to agriculturists and traders. Loans are granted and money advanced by joint-stock banks easily and without much delay than by Government or other kinds of banks. The rate of interest charged by a joint-stock bank is generally 12 per cent per annum on mortgage loans and the period seems to range from three to five years. The joint-stock banks are doing a good deal of business in jewel loan, the rate of interest for which is only 7½ per cent per annum. If only the joint-stock banks are properly managed by educated and qualified men, I think, they will be really useful institutions to promote agriculture and industry of the country. Also, the Government should have a kind of control over these institutions, i.e., to see if the business of the bank is conducted in accordance with its articles of association. This seems necessary, as I see now many joint-stock banks go into liquidation or become defunct owing to either mismanagement or infringement of their articles of association. This will also prevent fraud if there is any chance for it. When a joint-stock bank is about to be formed in a particular locality, the Government must be satisfied that there is really a need for it.

Written evidence of M.R.Ry. S. S. NAMASIVAYA MUDALIYAR
Avargal, President, the Tiruchendur Co-operative Supervising
Union Limited, Tiruchendur.

1.—Agricultural credit and credit facilities for small industries.

1. The agriculturists in this district as in many other places, being mostly uneducated and poor, do not make much distinction between their one need and another. They do not differentiate nor do they earmark the amount borrowed for, (a), (b) and (c) of this question. Every one of these three needs has to be attended to as they arise and in the general opinion of the agriculturists, the village mahajan is the only readiest source of help to which they could apply. The exorbitant rate of interest charged by the mahajan which ranges up to 24 per cent and the cruelty with which he, like another shylock, cuts all the sources of the agriculturists' paying back the loan is very easily forgotten by the readiness of the mahajan to advance the amount when required by the agriculturist without any protracted formalities. The sharpest village mahajan is more accommodative than any co-operative society. The co-operative societies form the next source of financial help. This is preferred for its low rate of interest, which is never above 10 per cent and its easy payment by instalments. The societies have been advancing long-term loans extending over a number of years which enabled the agriculturists to pay back their loans in small sums. Even at such times when long-term loans were prevailing, co-operative societies did not benefit many of the village agriculturists partly because the villagers were not, owing to their ignorance and conservatism, availing themselves of the new opportunities given them.

Now since the system of short-term loans has been introduced, the villagers have left the co-operative societies to themselves with their dues to it to fall overdue, and as a natural consequence, the list of overdue loans increased, and along with it, a number of societies that have been working well have grown to be dormant. It is indeed strange to expect a hundred-rupee loan to be returned within 12 months when the amount so borrowed has been utilized in a betel garden which would begin its yield only after a year. When the society and the bank have been so unreasonable to demand payment of the loan within such a short time, it is too much to expect the village agriculturist whose need for money is so great to repay such a loan, in spite of its being a short-term one, impossible of payment at the due date.

The Tinnevely District Co-operative Banking Union, Ltd., which found it necessary once, owing to a number of lakhs remaining idle, to have an expansion committee to do some propaganda regarding the facilities it afforded for the villagers to be benefited by its financial accommodation, found its surplus amount gone in the course of a few months. The advent of short-term loans and sudden fit of fear with which the bank was affected which made the bank put unnecessary restrictions in the passing of loan applications has again left a good amount remaining idle. This is a proof positive of the inability of the bank to adjust its supply to the demand. The utter want of co-operative propaganda in a place where societies have been brought into existence without any one of the panchayatdars knowing anything regarding the proper working of it, is another drawback which prevents people from being benefited by co-operative financing agents. The Government loans are not very much sought for because of the protracted formalities one has to undergo in obtaining it, and the rigidity of its collection along with the revenue. The help of the Imperial Bank of India is sought by the merchants as a class and very few agriculturists seek its help. Mortgage of property and surety of persons are the two securities given generally and cases where standing crops have stood security of loans advanced are very rare.

At present, as things stand, the agriculturist who applies for help to the village sowcar is bound to suffer because of the high interest and of the sowcar's grasping ways. The low interest and easy payment in a co-operative society will be to the interest of the agriculturist, but owing to the delay

in the disbursement of loans to such co-operative societies by the financing banks, the villagers are not able to get the required monetary help in time and they have again to fall into the hands of the mahajan or money-lender. It is a known fact to one who is in the field of co-operation that many members in co-operative societies get loans from the village sowcar to meet their needs for the present which loan they repay from the society's disbursement. So, a loan applied to a society does not come in time to benefit the villager. Many a time this has been represented to the authorities whose only reply will be about the forecasting of the villagers' necessity.

The average agriculturist is neither able, nor is in the habit of budgeting his expenses or forecasting his necessities and it is rather too much to expect of a villager whose want of education stands in the way of his doing so.

Therefore, long-term loans to members and the avoidance of unnecessary delay in the disbursement of loans to societies by the financing banks would go a great deal to help the villagers from the clutches of the mahajans. Much of co-operative propaganda is needed. The village society, the supervising union, the federations and the banks do not care for educating people on co-operative principles.

2. There has not as yet been much of organized economical marketing of principal produce. In a few places co-operative sales have been arranged which put us beyond doubt that if this system is improved it will be productive of much good and much of present wastage might be avoided. In this part of the Tinnevely district, Tiruchendur taluk, the palmyra produce could be pooled up and sold at a very favourable price. But for want of such organized sale, the jaggery is sold at very unsteady and low prices not adequately benefiting the producers. It is possible here to make producers of jaggery to bring their produce to a few central co-operative godowns where they could stock them and take loans on the pledge of such produce for their current expenditure and wait for a good price and sell them. This method has been tried at Arokyapuram some ten miles from Tiruchendur for the last five years and found very successful. In a place like Udangudi, the jaggery produced within some five miles' radius could be very conveniently stored and different godowns may be brought into being in different places around and jaggery stored in those places. The market can be studied and price fixed without any competition and the produce sold.

4. The land mortgage banks if established in suitable places would help the agriculturists to get themselves relieved of their indebtedness.

III.—Investment habit and attraction of capital.

1. Investments of savings are made with the local merchants and bankers and chit institutions. The chits are one of the indigenous institutions that draw the savings of individuals. In spite of individuals who conduct these chits failing to pay back the amount in many cases, people have such a strong tendency in favour of the chit transaction that very often we find innumerable chits are being conducted. The recurring deposits account in the co-operative societies could very well be opened and the people could be directed from the chits to this. But it requires one's enthusiasm and hard work to make the people understand the safety of their deposits in the co-operative societies.

The making of the jewels has been considered by the majority of the Indian people as a safe investment and since most of them are illiterate and suspicious of the safety of their savings if invested in any of the banks or otherwise, they prefer this method of investment. When some of these women come into the co-operative society as members and when they know the working of the society and get some confidence in it, they are not found to be as eager as they were before to invest their savings in the jewels again. So, it gives room for one to think that if these women who are bent on investing their savings in jewels were educated to some extent in this direction they would be willing to let their savings be used in a better way.

2. The postal cash certificates cannot be considered to be popular when we know what portion of the available capital is so invested. A revision of the rate of interest of the cash certificate favourable to the investor would attract more of the capital now invested outside.

5. The banking and investment habit is of very slow growth in India owing to the want of education among the Indian people and their innate conservatism which do not allow them to take new opportunities as they come.

Investments are made mostly on the confidence of individuals who conduct a business or bank. From time out of mind, the Indians were investing only on personal confidence. If one believes in another, no more surety is required for him to invest his savings with him to be kept safe. The same thing holds good even to-day. Even though the same by-law exists in the various societies, some of them are able to get a good amount as deposits because of the confidence of the people on the individual or individuals responsible for the working of the society. So, the best way of educating a certain locality will be through propaganda by some local institution the conductors of which might have influence on the people. So, the co-operative societies in the locality might be made to do some propaganda work regarding this, and the hands of the society might be strengthened with monetary help from the Government to do this.

**Written evidence of M.Ry. O. M. VENKATANATHA
 AYYANGAR Avargal, Co-operator, Uttiranmerur.**

Before giving my answers to the questions, I wish to impress in the minds of the Committee that the banking business on the whole is far from satisfactory and no one knows the benefit of the banking except a few educated persons in this Presidency.

I.—Agricultural credit and credit facilities for small industries.

1. (a) As there is a number of co-operative societies in the Chingleput district cultivators get their loans from the co-operative societies.

(b) From co-operative societies and private persons.

(c) Do. do.

Excepting in co-operative societies the rate of interest ranges from 12 to 20 per cent per annum. Loans are got by mortgaging the landed properties and by pledging jewels and standing crops.

2. Generally people take paddy to Arni, Vellore and Madras for selling the same.

By improvement of co-operative societies the pooling system may be introduced which is a good method. Now the paddy is sold under commission system. There is vast difference between internal trade and foreign trade.

Bankers and merchants advance through their agents and take agreements from the persons. For the internal remittance there are no proper facilities in this Presidency like banking. Only by way of postal money order and insurances they are going on. These arrangements are inadequate. Hundis and exchange system are prevailing to a small extent. Generally insurance and money orders, instead of the British postal order system may be introduced for remittances. This will be very useful to the public and safe for transactions. As far as I am aware there are three kinds of hundis, i.e., (1) ordinary hundi, payable at sight without grace; (2) ordinary hundi, payable at sight with grace of three days; (3) payable after sight within the specified time mentioned therein. On these hundis, sometimes interest also is payable. The system is prevailing in Madras and other commercial places such as Madura, Kumbakonam, Trichinopoly and other places. Except in the town of Madras warehouses are not available. It will be better if warehouses are introduced with co-operative societies.

3. Generally cotton growing lands are valuable lands. Then come lands where indigo and tobacco are cultivated. Next come paddy growing lands. By private sales, a high price is fetched; court sales and revenue sales generally fetch a very low price.

4. There is no impediment in mortgaging lands. There are no land mortgage banks. If they are introduced, they will prove very helpful. Other co-operative societies are helping now. By the debenture system, capital may be raised. Co-operative banking system is the only useful system. The fact of advancing money may be published by tom-tom in the village and objections may be called for so as to enable the bank to find out the defects in the title to the properties sought to be mortgaged.

Capital may be raised by debenture system. Other systems are not possible. Government guarantees in land mortgaging societies; except through the help of central mortgage banks, long-term loan cannot be granted.

5. Facilities to agriculturists can be granted only by co-operative societies. The estimate is generally ten times the kist payable, i.e., if a village pays a kist of Rs. 5,000 the probable expenditure for cultivation will be Rs. 50,000 per year. To raise loans of a short period, pledging ornaments and crops and produce is adopted. For a long-term loan it is safe to raise money on mortgaging immovable properties.

Generally people borrow money on marriage occasions, for purchasing lands, etc., and to discharge previous debts (which include compound interest).

In most cases, debts are incurred from indigenous bankers, with 12 to 20 per cent interest. By borrowing in these manners, the farmers generally become tenants of indigenous banks who advance money and the cultivators suffer much.

6. There are no such industries supplemental to agriculture except in certain cases where big mirasdars alone are in a position to take to them.

These industries can be encouraged by co-operative societies which alone can start such industries as a common one for the village to help the agriculturists. By introducing cottage industries such as spinning, weaving, matting, etc., the standard of life of an agriculturist can be raised. Working capital has to be supplied at first by co-operative societies. Metal industries which were once prominent may be introduced.

7. Excepting transacting money with each other there is no connexion between co-operative societies and other bankers.

There is difficulty in getting short and long-term loans in time from co-operative societies, as the papers have to pass through many hands to have a loan sanctioned. To avoid this the following method is suggested. Every society should make its indent for the short and long-term loans for a lump sum once in a year, i.e., in June and July, and get the sanction from the central bank through proper channel and the money may be drawn by each society on as many times as it wants directly from the central banks. There is no competition between co-operative societies and joint-stock banks.

All the conditions noted in the question are necessary for the growth of the co-operative society such as remission of stamp duty, registration fee and income-tax. In order to stimulate the growth of the co-operative movement, it is very necessary to give all kinds of concessions to the members.

II.—Indigenous banking.

1—5. Indigenous bankers will not transact business like co-operative societies. Excepting lending money for interest, indigenous bankers do not assist. They do not have transactions with other banks as stated in the question. (Refer answer to question (2) for nature of instruments used.) No hundi forms are available. They lend money at their sweet will and pleasure. They (Sowcars, Nattukottai Chettis and others) borrow money and also take deposits at 8 to 10 per cent interest.

6. Agriculturists pay interest at not less than 12 per cent per annum.

Better organization can be brought by co-operative societies.

Yes. Better improvements can be had by co-operative societies.

7. There is prejudice against indigenous bankers. Excepting as regards interest, they are protected by law. They are doing business on sound lines.

It is impossible to make these bankers to be useful to public and no facilities need be shown to these kinds of bankers.

10. They are not able to meet all the demands. It is not easy to link them with other societies.

11. If indigenous bankers agree, they may be connected with banks and it may be useful also.

12. Their monies are always lent to borrowers.

III.—Investment habit and attraction of capital.

1. The resources are share capital, all kinds of deposits and borrowings. Additional capital is necessary. Twelve times the share capital is necessary.

The means are savings bank, current account, house safe, provident deposits and other deposits.

Yes. Some more facilities can be granted,

2. The postal cash certificates are popular, and are increasing in popularity. Rate of interest in postal cash certificates may be increased a bit. The savings banks afford all possible facilities.

Petty dealers only are generally resorting to the postal savings banks. If the number of withdrawals are increased during a week, other classes of people may be attracted.

3. People are not inclined to deposit in Government securities. No surplus money except with big mirasdars who always deposit on lands, is available.

4. The non-stamped system of cheques is useful to the public and the business by cheque system is being increased.

Only educated people are using cheques. If the vernacular cheque system is introduced, the cheque habit will be developed more. In this connexion I wish to impress on the minds of the Committee that it is better to encourage the cheque system throughout the Presidency in various banks and midhis registered under the Companies Act.

5. Yes. The growth is very slow due to want of enlightenment on the subject. By sending a propagandist throughout the Presidency and thus enlightening the mass it may become rapid. This system is very essential.

By opening the Imperial Bank's branches in various places, many people are attracted to join as they are very near to them. These branches throw some light on the mass regarding the usefulness of banks.

**Written evidence of M.R.Ry. Rao Sahib VITTALDASS
ANANDAJI SALT Avargal, Tiruppur.**

I.—Agricultural credit and credit facilities for small industries.

1. The average agriculturist is in an impoverished condition and he has to borrow throughout the year for all purposes. If rain fails, he has to borrow for maintaining himself, or he has to turn labourer and sell his cattle also.

The money is mostly borrowed from the professional money-lender, the rate of interest varying from 12 to 18 per cent on mortgages and rising to 36 per cent on other loans. The beneficial provisions of the co-operative movement have yet to reach a large majority. Loans from Government are also subject to delay, and very often they are got too late to be utilised advantageously. The poor illiterate ryots have to face various difficulties to get these loans.

2. At present facilities exist only for marketing export crops. Co-operative efforts are sadly wanting. Central markets and bonded warehouses are quite necessary. To make transportation cheap, village cart-tracks should be improved.

4. Land mortgage banks are very necessary and the working capital for them may be borrowed from a central institution.

5. When landed property passes into the hands of creditors farmers turn into tenants. Only very few work with zeal and hope to redeem their lands.

6. By way of encouraging subsidiary industries and enabling the producer to get a better return, Government must put into the hands of farmers cheap improved form of machinery for increasing the output thereby.

7. There seems to be no co-ordination between the several kinds of banks.

I welcome the suggestion to exempt co-operative societies from income-tax.

II.—Indigenous banking.

1. Indigenous bankers often run grave risks when they lend money and their lives are constantly in danger. The Government must protect them and their interests.

III.—Investment habit and attraction of capital.

2. The postal cash certificates are taken advantage of only by the people in big towns. In small towns the formalities required by the post offices often scare away the villagers and they squander it.

To encourage farmers to save small sums, I would suggest that the post office might grant life insurance policies for small sums, say rupees two hundred and upwards.

3. Big farmers, now and then, lend to their fellow agriculturists either money or grain, with motives of self-interest and often charge high rates of interest, according to circumstances.

Written Memorandum of the Southern India Chamber of Commerce, Madras.

General.

Indigenous banking.—The indigenous bankers who in this part of the country consist of Nattukkottai Nagarathars, Multanese, Marwaris, and local money-lenders, have been playing a very important part in the internal trade of the country. In a country, where joint-stock banks are few and far between, and have been growing rather slowly, the indigenous banker is really an indispensable factor in the present economic framework of the society, and must remain so unless a sudden economic transformation is either desired or feasible. He finances the cultivator for sowing, harvesting and marketing. He finances the retail dealers; he finances the cottage industries, and warehouses and markets their products; he finances the distribution of imported produce; he discounts hundis and makes remittances for his clients; he lends on goods, on house property, on jewels, on personal or any other reasonable security. His rates are high because money is generally dear and he has no competitors in the locality. He has good local knowledge and he has the necessary funds, and so he will make a good guarantor or accepting house to the joint-stock banks, and will supply a valuable link for remittance purposes. If joint-stock banks will establish branches in all towns having a population of 10,000 persons and over, and a number of private bankers of the neighbouring places are connected with each branch, they will among other things supply sufficient funds and control the rates charged by the approved bankers. The reserve bank with the advantage of Government funds will finance and control the working of the joint-stock banks and help the establishment of branches; thus the indigenous bankers will find a definite place in the general financial organization. My Committee are not in favour of their being appointed as agents of the Imperial Bank, as is suggested in some quarters. Their present unpopularity is due to their high rates. This can be overcome only by setting up competitors in the locality under the patronage of the local joint-stock banks. One serious handicap to them as well as the Indian joint-stock banks is the absolute necessity of carrying large stocks of Government paper to help themselves with in times of crises. This policy involves loss of interest, depreciation and fluctuation in prices. They undertake a great deal more risk than any joint-stock institution would care to, but they are able to keep themselves going by their deep knowledge of local conditions and their adjustment of business methods to suit the habits and customs of the local people. Their deposit rates are higher than those of rival institutions and unless cheaper money is made available to them and the country as a whole, the task of bringing down the interest rates by legislation or other means is really stupendous. Another difficulty to them is the lack of public confidence owing to their financial position being kept a secret. Restriction on high rates of interest, audit, periodical publication of figures of assets and liabilities, definite hours of business, fixed terms, control of the approved and registered bankers by the reserve bank, etc., would greatly help to strengthen their position with the public and the lending banks.

The exchange banks.—The exchange banks are controlled entirely by foreign boards of directors and shareholders, but they handle a stupendous amount of loanable capital available from within India. Their deposits in 1927 amounted to Rs. 69 crores while the Imperial Bank's was Rs. 72 crores and all the Indian joint-stock banks put together could obtain only Rs. 64 crores. These funds deposited with them are almost entirely used to finance imports and exports in foreign trade, and encourage and develop the trade and industries of their own countries. Their policy of accommodation has a great deal to do with the nature of articles imported or exported. Their offices are at the principal ports, their funds are seldom available for internal trade whose magnitude and need for accommodation is perhaps twenty times that of the foreign trade. Rates of exchange are left to their

manipulation, subject, of course, to the complicated transactions of the Government of India. The absence of a gold currency and gold standard with the attendant lack of facility to ship gold in the face of adverse exchange, has made the exchange banks the dictators of the Indian importer and exporter. The overflowing funds of the exchange banks, which represent the savings of the Indian people, are invested in foreign securities and are not available for the internal trade or industries of this country. In order to help the Indian joint-stock banks to establish foreign business the competition of the present exchange banks should be curtailed as is done in several advanced countries. They should be bound to furnish separate accounts of their Indian business. Their foreign investments should be so restricted as to leave a definite proportion of their funds for being utilized for discounting and rediscounting internal bills and for Indian stocks and shares.

Similar restrictions as regards deposit with Government and the investment of funds should be introduced at a very early date with regard to the numerous foreign insurance companies working in India to the serious detriment of indigenous concerns. Their funds obtained in India ought to be made available in their entirety for the financing of Indian trade and industries. The establishment of warehouses all over the country by railway companies, firms and institutions under licence, and the issue of warehouse receipts which would be suitable security for advances from the banks would also help in the same direction. Another difficulty is the practice of merchants keeping open accounts instead of handling hundis which could be straightaway discounted and ready cash made available for working capital. For this purpose bills of exchange and hundis have to be made more popular as suggested in answers to the respective questions. Unless by these means an extra amount of loanable capital is immediately made available to the merchants and industrialists and the facilities of borrowing are simplified the work of bringing down rates of interest which is the *sine qua non* for the promotion of the above activities can hardly be accelerated.

Central banking institution.—My Committee do not feel it necessary at this stage to detail their views on the formation of a reserve bank except in so far as to describe its place in the general organization of the money market. The reserve bank should only be a banker's bank, not working for profit, but exercising proper check on the policy of the member banks, going to their rescue in emergencies, safeguarding the investments of the depositors of the country, and controlling the currency and credit policy of the Government of India.

The Imperial Bank is a severe competitor to other banks mainly because of the large Government funds controlled by it. If the contract with it happens to be renewed it should not be allowed to open branches where any of the Indian joint-stock banks have opened or contemplate opening branches. The Indian joint-stock banks should further be encouraged to open branches on terms similar to those given under present contract to the Imperial Bank. The fact that Indian joint-stock banks require some amount of protection against the Imperial Bank and foreign banks may be seen clearly from the variations, shown in the following table, in the deposits of the different classes of banks, although the Indian joint-stock banks have been giving more attractive rates all round:—

Banks.	1921.	1922.	1923.	1924.	1925.	1926.	1927.
	RS.	RS.	RS.	RS.	RS.	RS.	RS.
	(Crores.)	(Crores.)	(Crores.)	(Crores.)	(Crores.)	(Crores.)	(Crores.)
Imperial Bank ..	66	67	74	77	78	74	72
Exchange Banks ..	75	73	68	71	71	72	70
Joint-stock Banks ..	80	65	48	55	57	63	64

Investment habit.—It cannot be denied that the Indian investor is too conservative and panicky. The amounts in jewellery and hoards are probably not a mean figure. The Government's monetary policy, the fictitious

currency standard of the country, the lack of statutory control of Government over banks in the interests of depositors, the laxity of control of joint-stock companies, particularly in this Presidency where the law is administered by the Registration Department, the lack of education and of facility and security for investments in rural parts—all have contributed to the alleged shyness of Indian capital and locking up of funds in jewellery. The fear of loss in business swallowing up one's savings is a contributory cause but the practice of forming limited companies is becoming increasingly popular. For this purpose there should be special legislation regulating the working of the indigenous savings banks known as the *midhis*, mutual-benefit associations, and the *chit funds*, so as to ensure perfect safety to the savings of the masses and uniformity in the rules and regulations. At the same time there should be legislation against malicious scandal mongers who are out to destroy the credit of any institution. The legislation may be on the lines of the Vexatious Indictments Act and Costs in Criminal Cases Act of England. The Government or the Reserve Bank should exercise due check on the policy of the joint-stock banks which in turn jointly with the Government should control the operations of the indigenous banks. The co-operative banks and societies should be spread all over the country and promote savings habit and provide facilities for running small industries. The evolution of investment trusts as in the West would encourage investments and industrial growth. It would be a great facility if withdrawal forms of the savings banks can be made negotiable paper. Opportunities for investment would also be increased by industrial development which can be accelerated by controlling the investment policy of the banks, insurance companies and other foreign companies investing abroad funds earned and saved in this country. Propaganda against the waste of savings in religious rites and social customs should also be undertaken.

2. Postal cash certificates are an eyesore to joint-stock banks because their rate is becoming more and more competitive. A policy of gradual reduction in rate should therefore be tried. Further, such moneys are not available for trade or industrial purposes, and it is not therefore desirable to encourage investment in cash certificates and other Government securities. Government should also stop other short-term borrowings.

4. Abolition of stamp duty on cheques and demand bills has given great stimulus to the use of cheques. The cheque habit will progress with the growth of literacy in the country. At present only 9 per cent of the total population is able to read and write. With increasing security given to depositors by the creation of a reserve bank, the insistence on periodical returns of accounts, the strict administration of the Companies Act, etc., the habit will be strengthened. The prevailing rates of interest for time deposits and opportunities for investment at high rates are an impediment to the opening of current accounts. Cheque forms and endorsements in vernacular are very necessary in the present state of public education, and banks would do well to keep vernacular experts.

Answers to the questionnaire.

1.—Agricultural credit and credit facilities for small industries.

2. *Marketing.*—Taking a typical export product, say, groundnuts, following is the process :—

The exporter makes an advance to the cultivator to the extent of about 50 per cent of the estimated value of the crop with or without interest. Some exporters bind the cultivator to sell at a fixed price. The exporter has to depend on his own capital or loan on other securities for the amount of these advances. In due course, the financial relations of the cultivator bind him down to dealings with the same exporter. The price is either predetermined without reference to the conditions in the foreign market or the crops have to be warehoused and sold to the exporter as soon they are harvested at the prevailing market price. The exporter rails the goods and takes about 75 per cent advance from the bank on hypothecating the railway receipt. The bank has the custody of goods till shipment is made when the bank reimburses itself against the credit opened by the importer or relies on the custody of the goods and the shipping documents.

Taking a local produce intended for local consumption, say, cotton, the process is as follows :—

The cultivators are financed by the co-operative societies, or the gins or the local agents of any mills. The gins and presses either purchase outright or gin and press on commission ; here also banks' moneys become available only on railing the goods to the markets, or to the mills.

There are great possibilities in co-operative efforts in marketing. But in production in any compact area growing a particular crop, societies can spring up and they will be responsible for advances to the cultivators and collecting of produce for sale ; the marketing will have to be undertaken by the central co-operative bank for the whole area.

The financing of products during the stage of transit from the village to the market centre is at present very defective. The present credit is either that of the cultivator or that of the small local merchant, who both can ill-afford to give it. The result is marketing of produce is hurried through in order to get cash down. In market centres where the goods are warehoused till they move to the ports or consuming centres, the funds of joint-stock banks, if any, or indigenous bankers would be available. But the absence of any licensed warehouses is a handicap to the banks as they have to exercise a more careful watch. What is required is the advance of a fair percentage of price to the cultivator on the security of his produce which may be kept in the custody of a wholesale distributor until the market is favourable. If further a system of warehouses is instituted it will be possible to raise money for the middleman or merchant on the hypothecation of those receipts as at present the cultivator and the village merchant get practically no credit worth mentioning.

As regards financing, the condition of foreign trade is much better than that of internal trade. The exporters are themselves big capitalists and are supported by the exchange banks with their branches at the ports. But internal trade is financed entirely by small capitalists supported by Indian joint-stock banks and indigenous bankers. The merchant engaged in internal trade has nothing like the organization of the exporter. Consequently the inland trade passes through many hands in the course of a short time. Credit is hardly available for the movement of produce from a village to the nearest marketing centre, owing to the lack of banking facilities. Similarly in distribution, owing to the absence of bankers in small towns and villages goods cannot be railed for delivery on payment. Establishment of warehouses along the railway line and other country centres will greatly help the movement of produce in internal trade.

Remittances are now made chiefly through the post office and through banks, especially the Imperial Bank and Multanis, where they exist. Treasury remittances are available to approved customers. The charges vary from 4 annas per Rs. 100 to par and even discount according to the prevailing conditions. Remittances by indigenous bankers can be improved by their having definite working hours and paying proper attention to customers and prompt payment on the due date. A reduction in postal charges and the institution of links from the reserve bank down to the approved or registered indigenous bankers in different towns and villages will improve the present facilities.

Hundis.—There are both *darsan* and *usance hundis* used in internal trade. But the amounts covered by hundis constitute a very small percentage of the amounts involved in internal trade, because merchants are in the habit of giving credit and keeping open accounts. The use of bills can be encouraged by the abolition of duty on bills or at least a substantial reduction of duty and by the offer of discounting facilities by the banks and bankers at low rates. The use of vernacular in the body of a bill and endorsements should be acceptable in all banks. The rate of discount of the Imperial Bank should not be less than that of the joint-stock banks, so that discounting by the joint-stock banks will become more popular and rediscounting of such paper with the Imperial Bank will become feasible. Owing to the lack of discounting facilities in local centres even where there are branches of banks it is often necessary to send them to the provincial centres. But the practice is generally for merchants and commission agents to hold the hundis till maturity.

The chief documents of title used for raising money are the railway receipts, warehouse-keeper's certificates, delivery order, dock warrant, wharfinger's certificates, bill of lading and shipping lien or trust receipts. One chief difficulty in advancing on the railway receipts is the practice of railway companies delivering the goods on indemnity bonds without the production of railway receipts. This often involves loss to the banks. It is, therefore, necessary that the railway company should be required to take care that the bank's lien on the goods should be registered on intimation and the goods should then not be deliverable to the consignee until the bank's claim is settled.

Licensed warehouses can be opened for the present by the railway companies. Private persons and indigenous bankers may also be licensed to keep warehouses on their making a proper deposit with the reserve bank or Government co-operative societies may also be licensed to keep warehouses in cases where their liability is guaranteed by the central banks. But it should be enjoined that no warehouse-keeper be allowed to deal in goods, not necessarily the same goods as he warehouses. Government can assist by the lease of lands, by the erection of warehouses and equipment, by the grant of loans for such purposes, by the reduction of railway freight to and from warehouses and centres and by the construction of good roads.

7. The co-operative banks have very little dealings with the joint-stock banks and the indigenous banks. The Imperial Bank discounts co-operative paper and advances to the central banks to the extent of Rs. 50 lakhs.* Each central bank, unlike in Bombay, deals direct with the Imperial Bank. Long-term capital is practically unobtainable so as to suit expenditure on land improvements. Advances from other banks can only be for short terms. For long-term capital the banks now depend on the issue of debentures. But it does not provide enough money and for this purpose land mortgage banks have to be started with Government aid. Short-term funds are fully available so far as the competition of other banks would permit. The competing banks offer higher rates while the co-operative banks are unable to offer more than the statutory rates. The nature of relief intended to be given by the co-operative banks to the agricultural and other poor classes compels the adoption of a low rate of interest. The result is that co-operative banks must depend more and more upon the availability of Government balances either free or at nominal rates.

In order to encourage the co-operative movement it would be necessary to give further concessions. The investments of co-operative societies are already free from income-tax except Government securities. It would be helpful if debentures issued by the co-operative banks are admitted as trustee securities.

II.—Indigenous banking.

1. The indigenous banker performs the same functions as the joint-stock bank.

2. Indigenous banker's money is not available for industries except small domestic ones, in which he advances money and undertakes marketing at a scheduled price. Similarly in agriculture, only the village sowcar cares to advance small sums on the crops and in all such cases the produce has to be sold to him directly it is harvested. The cultivators can hardly expect to get the best price under these circumstances. On the other hand, he lends plentifully on internal trade.

5. The indigenous banker advances on hundis and pro-notes with or without collateral securities, for short terms only, the rates depending on the degree of security. The interest accruing for the period is deducted in advance and the penalty clauses are somewhat harsh and usurious. His rate for short terms for first-class securities is 9 per cent. He lends on gold, land and buildings, goods and personal security.

6. The indigenous banks receive both current and time deposits. They offer 4½ to 6 per cent current deposits and 6 to 7½ per cent for time deposits. Many of them are known to have large amounts of money lying idle especially in the case of Nagarathars the large majority of whom act as

trustees. On trust funds they give a fixed rate which is low and is determined from month to month. The bankers have great solidarity among themselves by their being members of the same community. A great deal of inter-borrowing and inter-lending goes on from day to day. The rates are not directly influenced by the Imperial Bank rate because the supply of loanable capital is still deficient. The agricultural community has to pay between 12 and 24 per cent for short terms. No amount of organization can bring down the rates unless supply of loanable capital is increased substantially. Even at present the funds of the Multanis are supplied mostly by the Imperial Bank on rediscounting, and of the Nagarathars by the Indian joint-stock banks on cash credit and rediscount, but they are still dictating their own rates because money is scarce.

7. There is absolutely no prejudice against these bankers. In fact they form an inseparable and necessary entity in the money market. Their dealings with the public have to be regulated and legislation on the lines in which joint-stock banks are going to be controlled may properly be extended to this class of bankers also. The *nidhis* and *chit* funds ought to be regulated and controlled by means of special laws.

III.—Investment habit and attraction of capital.

Investment in productive undertakings in this Presidency cannot improve unless the working of the Companies Act in this Presidency is undertaken by a separate department with a qualified staff. The present control is meagre and many bogus concerns are brought into existence and there are others which come to grief because of the want of timely check in the conduct of the affairs. Propaganda would not be of much use. The sense of security has yet to be created; the stamp duty on transfers of goods, shares and other property should be reduced and the facilities for buying and selling of shares should be available in principal towns. The co-operative banks and other banks working in a town may usefully undertake the purchase and sale of shares and stocks.

Answer to the supplemental questionnaire.

A copy of this office letter No. 100, dated 22nd May 1925, to the Government of Madras, Finance Department, on the same subject is enclosed. The Chamber have had no reasons to change their opinion since then.

ENCLOSURE.

Proposal for the amendment of the Negotiable Instruments Act, 1881.

I have the honour to acknowledge the receipt of your letter No. 12448 Accts-1 of 2nd April and No. 12448 Accts-4 of 6th May, and give below the reply of this Chamber with regard to the proposed amendment.

The Associated Chambers require that bearer drafts, hundis and cheques should always remain bearer drafts. The Chamber is aware of the great advantage that the mercantile community derives from bearer negotiable instruments which facilitate their rapid change of hands in commercial transactions. But the proposed amendment at a single stroke deprives the holder of the advantage of protecting himself against loss by negligence or theft, by means of converting bearer into order instruments and vice versa at any time he chooses. This advantage is in practice very much appreciated by businessmen. The proposed amendment deprives them of this much valued privilege and causes a bearer instrument to remain always bearer.

2. It was suggested during the discussion in the Associated Chambers that as a set-off against this lost protection, the holder enjoys the right of crossing the cheque. Apart from the question of the distinctive merits of the crossed cheque and order cheque, in point of their negotiability, it should be noted that this advantage, if any, exists only in the case of cheques. The same advantage cannot be claimed for hundis or pro-notes.

3. It may also be noted in this connexion that the particular judicial decision which has provoked the proposal relates not to any cheque but only to a hundi. Consequently, the safeguard of crossing is clearly not available at all. The amendment, if carried, will probably apply also to order instruments that have become bearer by general endorsement. That will be really a serious loss of protection. If it be not made applicable, then there is brought into being a meaningless distinction between instruments originally bearer and those subsequently becoming so. Whatever might be the practice relating to this matter in Great Britain and other countries where the implications of negotiable instruments are better understood, this Chamber is of opinion that the proposed amendment of the law would be inappropriate in view of conditions in India. This Chamber does not also share the view that there is in any case such extreme urgency as to justify consideration of this point in advance of the general revision of the Act by the Statute Law Revision Committee.

4. For these reasons this Chamber does not feel itself in a position to support the amendment.

**Written evidence of M.R.Ry., R. SUNDARAM AYYAR Avargal,
B.A., B.L., Secretary, the Co-operative Central Urban Bank,
Limited, Tanjore.**

1.—Agricultural credit and credit facilities for small industries.

The Tanjore district is made up of two distinct parts, the wet tract or the area served by the Cauvery and its branches and the dry or the upland tract being purely rain-fed. Agriculturists generally borrow from various sources for their expenses during cultivation and for their special needs such as payment of kist, holding off produce for a better market. The sources are the village money-lender, the grain dealer, the rich landlord, the local co-operative society if there is one, and the joint-stock banks working in towns like Tanjore, Kumbakonam, Negapatam and Mayavaram. Loans for capital and permanent improvement of lands or what are known as long-term loans are now generally obtained from the co-operative society and the Government as the conditions and terms of the other agencies are not favourable to the agriculturists. The nature of the security offered to private money-lenders in respect of short-term loans is—

- (1) Simple bonds of the borrowers themselves.
- (2) Surety bonds executed by the borrower and one or more sureties.
- (3) Pledge of jewels and pledge of crops on oral contracts.

In co-operative societies, loans on the pledge of harvested produce or finished products and on suretyship bonds are given. In joint-stock banks mortgage of immovables, pledge of jewels and produce are taken. For long-term loans, mortgages are generally taken by all the agencies. The Tanjore Co-operative Central Bank has lent money to the extent of Rs. 2,00,000 (two lakhs) for being lent to members of primary societies for short-term purposes, of which Rs. 32,628-2-0 represent loans on the pledge of harvested produce, the produce being secured in godowns of the loan and sale societies situated in convenient centres and looked after by them. The money-lender's rate on all loans is between 12 and 30 per cent, the rate of the joint-stock banks between 6½ and 7½ per cent, while the co-operative societies' rate is at present 9½ per cent. The period of short-term loans varies from eight to twelve months generally and long-term loans from three to five years. The conditions of the private money-lender are that a portion of the harvested produce, to cover the interest on the loan, should be delivered to him at the threshing floor or immediately after harvest, at the then prevailing market price, renewals being freely resorted to in respect of principal. The conditions of the joint-stock bankers are that interest on all loans should be paid monthly and principal in respect of ordinary loans should be repaid in equal monthly instalments, in respect of special loans should be repaid in lump sum or instalments within the period agreed upon not exceeding 45 months, extensions being granted for further periods.

The system in co-operative societies is that interest is payable half-yearly on both short and long-term loans, principal being payable half-yearly or annually.

In this bank's area, the Imperial Bank is not directly helping the agriculturists except that an overdraft has been allowed to this bank to the extent of a lakh of rupees, which is operated upon for giving short-term loans only. Ryots do not freely resort to Government for financial help under the Land Improvement Loans Act and the Agriculturists Loans Act, owing obviously to practical difficulties in obtaining and repaying such loans. The parts played in agricultural finance by the joint-stock banks, co-operative banks, private banks and money-lenders have already been referred to.

In spite of the agencies enumerated above, facile credit is not readily available to the agriculturist, and he is driven from pillar to post to fetch the wherewithal for his agricultural and domestic requirements. The agriculturist requires financial help throughout the year for agricultural and domestic expenses. But he is unable to command credit on account of his unpunctuality and improvidence. The best remedy appears to be that he

must look up to one and only source, preferably the co-operative society for all his financial requirements. And the financing agency must be prepared and willing to finance him for all his needs, in time, on reasonable terms. The condition of the agriculturist, in general, may be described as follows:—

The yield of his lands is decreasing but his debts are increasing. He is unable to repay his debts out of the income from his lands.

But a more lending society cannot improve his economic condition. It must devise ways and means of enabling him to repay the debt by easy instalments.

It appears to be extremely difficult to bring about co-ordination among various credit agencies. But it will be the grandest achievement if there is close co-operation among them by making the co-operative agencies the pivot of the whole scheme.

The village co-operative society must satisfy all the credit needs of the agriculturist which may be repaid within three years. But to relieve him from the accumulated debt, which he cannot conveniently repay within three years, land mortgage banks with power to lend up to twenty years must be established. The distinction between short-term finance required for agricultural operations and for domestic needs and the long-term loans required for repayment of chronic debts and capital expenditure must be clearly understood and the financing agencies must be distinct though both are co-operative organizations. Unless long-term credit is made available to agriculturists through co-operative institutions, he cannot give up his dependance on many undesirable agencies for his credit needs. The co-operative society must be the agent for the sale of the agriculturists' produce and for the purchase of all his domestic and other requirements.

6. Supplementary occupations must be introduced with a view to augment his income. Effective steps must be taken to demonstrate the adoption of improved methods of cultivation and the use of scientific manures. The Departments of Co-operation, Agriculture and Industries must co-ordinate their activities for the purposes mentioned above.

2. The principal crops in the district are rice, groundnut, coconut, ragi and maize. Two methods are adopted in marketing them—

(1) The cultivator takes his produce to the weekly or daily market and sells to the public in retail.

(2) Local grain dealers purchase the crops in lump and stock them. Afterwards they either sell the crops locally in retail when the price is high or arrange to send them to distant places where the market is favourable.

The groundnut crop and the coconut, to some extent, are exported to foreign countries. The groundnut not being an article of food is generally sold by the cultivator to local dealers soon after harvest. Foreign companies which deal in groundnut have got their branches in all important centres and the latter arrange to purchase the crops either from the ryots direct or through the local dealers.

Three points are noticeable in the present method of marketing agricultural produce—

(1) The existence of several middlemen is detrimental to the producer and the consumer.

(2) There is no organized distributive machinery in the case of local trade.

(3) The foreign trade is entirely in the hands of one or two companies who dictate the price and the producer has no other alternative.

Recently co-operative societies have been started in some places to enable the ryot to get money for his immediate needs on the pledge of his produce and then sell the produce at a favourable season. These are called loan and sale societies. The object of these societies is to enable the cultivator to sell his crops to his best advantage. These societies at present help the cultivator only in retaining his crops for sale at a favourable season but not in their actual sale. If they undertake this function also, the middlemen will be eliminated and the profits, which the middlemen now get, will go to the cultivator. Thus the loan and sale societies may enable the cultivators to pool their produce and market them in lump. These societies have made a small beginning to enable the agriculturist to bargain for a

fair price. But the experiment cannot be said to be a success. The produce of the ryot is generally limited and the marketable portion of it is very little for which he finds a ready market locally. In some cases, owing to practical difficulties, he thinks it is not worthwhile to stock his produce in the society's godown. The rich landlords are either unwilling or have no necessity to go to the loan and sale society for financial help. Regarding articles of foreign trade, the private firms have built up their business on a large scale and the loan and sale societies are not sufficiently organized to compete with them. Want of loyalty on the part of members and lack of business ability on the part of the management chiefly account for the failure of co-operative marketing of produce. Local merchants and middlemen borrow money from private bankers and money-lenders, and utilise the same in purchasing the produce from the agriculturists. Joint-stock banks lend to such merchants on the pledge of the produce stocked by them.

Internal remittances are made by cheques, bills, drafts and hundis and also through postal money order and insurance. To popularize the use of bills, the stamp duty on bills up to a certain value must be abolished and bills and cheque forms in the vernaculars must be introduced.

3. In the deltaic parts, the value of nanja lands varies from Rs. 500 to Rs. 2,000 per acre. Punja lands adjoining river banks will fetch the same price. In the upland area the value of nanja lands varies from Rs. 300 to Rs. 1,000 and of punja lands from Rs. 50 to Rs. 300. The value given above refers to private sales. The value of lands in court sale is generally lower than that given above, though in some instances a fair price is fetched. In the case of sales for arrears of revenue, the price fetched is invariably nominal.

If lands are sold for arrears of revenue, the purchaser takes the land free of all encumbrances. In the case of lands governed by the Estates Land Act there is always a first charge on the lands for the rent due thereon. In both the above cases, the lands are liable to be sold summarily. But in the case of mortgage, the mortgagee has no summary remedy. He has to file a regular suit to enforce his mortgage right and the processes for execution of the mortgage decree are peculiarly tardy. There is only one land mortgage bank in this district, recently started, whose transactions are very limited and there is no other bank for long-term credit.

4. The existing banks which work mainly on short-term deposits are not capable of providing long-term credit and land mortgage banks must be established for long-term finance. They must be registered under the Co-operative Societies Act. There must be a central land mortgage bank at Madras for securing the necessary funds by issue of debentures. It will not be possible to get such funds by deposits. The distribution of long-term credit to the landholders must be through primary land mortgage banks established at taluk centres. The primary and central land mortgage banks must be distinct from the existing primary societies and central banks which must, after the establishment of the land mortgage banks, confine their attention to short-term credit. Primary land mortgage banks must lend to its members on mortgage of their lands. The loan should be repaid within twenty years by annual instalments. The central mortgage bank should raise funds by sale of debentures issued on the strength of the mortgages obtained by the primary banks and transferred to the central mortgage bank. The debentures should carry interest at 6 per cent. In order to make debentures readily marketable, the Government should guarantee the payment of interest on the debentures at least in the initial stages. Legislative provision must be made for realization of the mortgage amount by summary process in case of non-payment in time. Government must be given a prior charge over all lands mortgaged to the bank to the extent of the arrear due thereon, which may be enforced summarily in order to recoup any loss incurred by Government by guaranteeing payment of interest. A record of rights must be prepared in respect of all lands in each bank area and transfer of ownership should not be recognized unless duly registered in the record of rights. Land mortgage banks may receive deposits for short terms but such amounts should not be utilised for lending for periods longer than that of the deposits. The lending rate of the central bank should be 6½ per cent and that of the primary banks should be 8 per cent. In case of default, interest should be charged at 9 per cent

on overdue instalments of principal and interest. Interest on debentures issued by land mortgage banks must be exempt from income-tax. These debentures must be made trustee securities. Provision must be made for maintenance of adequate fluid resources to ensure regular payment of dues by the banks.

7. The Imperial Bank has granted overdrafts to co-operative central banks which are utilised for short-term loans and as fluid resource required to be maintained by the central banks. The joint-stock banks have opened current accounts with the co-operative central banks for depositing their surpluses. The co-operative central banks are not permitted to deposit their funds in the joint-stock banks but they can open a current account with the Imperial Bank. All the three kinds of banks help one another in the matter of realization of cheques and bills. The co-operative banks have no dealings with the indigenous banks except in the realization of cheques and bills.

The primary societies generally depend upon the central banks for all their finance and the central banks derive their funds mainly by deposits. The period of the deposits does not generally exceed three years. Hence such funds can be utilised only for loans repayable within three years. The share capital of the central bank and the reserve fund of the societies invested in the central bank are the only funds available for long-term loans. But they are not sufficient to meet all long-term requirements of the societies. Central banks are generally reluctant to advance loans for long periods and societies sometimes get short-term loans and the members utilise the amount for long-term purposes and commit default in repayment. Thus the loan to the central bank becomes overdue and the latter hesitates to advance further loans.

There is no competition between co-operative banks and joint-stock banks in this district. In addition to the existing concessions, co-operative societies must be exempted from payment of local taxes such as the company's tax and profession-tax and the postal charges for bona fide remittances of co-operative societies by money order and insurance must be reduced to one-half of the ordinary rates.

II. Indigenous banking.

2. Indigenous bankers in this district are generally engaged in lending money. They lend money for agriculture, trade and industry at exorbitant rates of interest ranging from 12 to 30 per cent. In the case of loans to agriculturists they generally stipulate for payment of interest in the shape of grain, the value of which is fixed at the low price prevailing during harvest season.

5. In some cases the price of grain is fixed in advance at the time of lending irrespective of the market rate at the time of payment. In the case of industry and trade, the period fixed for repayment is generally one year and even less and the interest due for the entire period is deducted in advance from the principal amount and only the balance is paid to the borrower who has to repay the entire loan amount (i.e., the amount which he actually received *plus* the amount withheld as advance interest) within the stipulated period either in monthly or daily instalments.

6. In the case of loans for longer periods, interest must be paid once in 10 or 12 months and provision is made for charging compound interest in case of default. As security for all loans, mortgage of land or pledge of properties or one or more sureties must be furnished. The banker is very careful about the payment of interest and so long as he is satisfied that there is sufficient security for his money, he is willing to renew the loan by taking a fresh bond for the total amount of principal and interest. These bankers have a nucleus of their own money and generally raise funds by receiving deposits from the public or by loans from other indigenous bankers and they allow interest up to 7½ per cent on deposits received by them. The money-lenders' rate of interest can be brought down by starting co-operative loan and sale societies as already described. Reduction of interest alone will not improve the condition of the agriculturists or enable them to spend more on improved methods of agriculture owing to want of thrifty habits. Constant propaganda and demonstration is necessary to

induce them to adopt thrifty methods of living and improved methods of agriculture. This is possible to achieve by the combined efforts of the Co-operative and the Agricultural Departments.

7. There is a natural prejudice against the indigenous bankers. They adopt unfair methods in fixing the rate of interest and in collecting the same. In some cases they insist upon repayment of principal in one lump.

8. This class of bankers may be made more serviceable to the community by making provision for their registration with a definite set of rules; but they will naturally oppose the introduction of any measures for regulating their operations and giving publicity to the same.

III.—Investment habit and attraction of capital.

1. Banking resources in this district are obtained by deposits of various kinds. Joint-stock banks and indigenous banks can get deposits only from the public. Co-operative central banks are authorized to receive deposits from the public and local bodies and security deposits of servants and contractors of local bodies and of Government. The existing institutions for encouraging savings and investments habit are—

(1) Government securities, the postal savings bank and the cash certificates;

(2) the co-operative central banks, the Imperial Bank and joint-stock banks receiving various kinds of deposits;

(3) provident funds for the benefit of Government servants, and employees of local bodies and banking institutions;

(4) chit funds for which provision is made in the by-laws of co-operative societies and some under private management; and

(5) life insurance by several companies.

The facilities for investment may be improved in small interior places by introducing chit fund and home-safe deposits through co-operative societies. It is notorious that people of India, especially in rural parts, are fond of investing their savings in silver and gold jewels and the richer class in diamonds. Some purchase jewels as pure investment, but in many cases it is done as customary necessity to wear jewels. Lack of discrimination in investing the savings and unfounded distrust in the existing institutions for profitable investment and the increasing false notion of necessary ornaments account for this habit.

2. Postal cash certificates are popular and their popularity may be increased by allowing quarterly interest at a lower rate in case of withdrawal even during the first year. Cash certificates may be made transferable by endorsement of the holder.

Savings bank facilities may be extended in the following ways:—

(a) By increasing the limit of deposit during the course of a year.

(b) By allowing interest for half a month on the lowest balance to the credit of the depositor between the 1st and the 15th and also between the 16th and the close of the month.

Officials, employees of all kinds of institutions and college students resort to savings banks.

3. Government securities are purchased and sold through postal savings banks and no commission is charged for such transactions. The Imperial Bank of India and other banks and brokers transact this business for commission not exceeding $\frac{1}{2}$ per cent. In the case of agriculturists and small investors the facilities afforded by postal savings banks are sufficient. In the case of small agriculturists the money got by them by sale of produce is utilised for payment of kist, repayment of debts and for ceremonial expenses. They have got nothing to invest. In the case of big landlords, in addition to the abovesaid expenses they utilise the balance in lending money to their poor neighbours and tenants. Persons getting decent monthly incomes either fixed or variable invest their moneys in co-operative or joint-stock banks and withdraw whenever necessity arises. People getting daily wages and low monthly salary spend their moneys as soon as they receive in purchasing the necessary articles of food and payment of interest on loans and part-payment of the principal.

4. Business people and persons getting large income generally invest their funds in banks, and open a current account. For all payments to be made by them, they issue cheques on the bank. The payee readily gets cash on presentation of the cheque to the bank on which it is drawn if it is near or any banker may pay cash for the same for a small commission. Thus business people are saved the trouble and anxiety of retaining large amounts of cash in their hands for making payments and the transaction by cheque becomes the best evidence for payment. Some banks grant overdrafts and cash credits to approved customers and in such cases also, the mode of operation is the same. By the use of cheques, the cost of remitting money from one place to another is greatly minimised. After the abolition of stamp duty on cheques, various kinds of payments by and withdrawals from the banks are made by means of cheques, thereby saving the cost of stamp for receipts. Thus the use of cheques has become more popular.

5. I support the view that the banking and investment habit in India is of very slow growth because it is congenial only to persons engaged in trade and business of some magnitude or getting fat income in other professions. The majority of the people of India are agriculturists whose habits are described above. Out of the rest many are men of limited means and incapable of saving anything. In order to enable people of the country to save and invest their savings in productive undertakings, the workers in the field of co-operation, agriculture and industry must co-ordinate their activities and educate the people by constant propaganda and practical demonstration and give them the necessary financial aid for adopting improved methods of agriculture, supplementary industries such as spinning, weaving, metal work, milk and ghee trade, etc. Suitable arrangements must be made to enable people to sell their produce through co-operative institutions and purchase their necessities through such institutions. Co-operative institutions must be the medium through which people must get all financial help and must transact all their purchase and sale operations.

**Written evidence of M.R.Ry. V. RAGHAVA AYYANGAR Avargal,
M.A., L.T., President, the Co-operative Supervising Union,
Mayavaram.**

1.—Agricultural credit and credit facilities for small industries.

1. The agriculturist obtains his finance for all the purposes mentioned under (a), (b) and (c) mostly from local creditors or professional money-lenders in the neighbouring towns. Co-operative credit societies are slowly trying to take the place of the former, but judging from the present rate of progress and the dearth of human material in rural areas for working such societies, it will be some decades before these will supplant the money-lenders. The nidhis in towns afford financial help for the purpose referred to, to not less than a third of the extent operated upon by co-operative societies. The extent to which co-operative credit is available to the agriculturist class can be gauged from the fact that in a taluk which has 170 villages, there are only 37 rural societies serving 62 major villages. Even these societies cover only a third of the total indebtedness of the villages served by them. The rates of interest for sums less than Rs. 1,000 vary between 12 per cent and 18 per cent. The loans are generally not available for more than three years. The loans advanced are mostly on pro-notes.

In the case of dry crops, loans are sometimes advanced by companies dealing in these or their agents or petty merchants, for the raising of the crop. But in these cases, generally, the agriculturist being ignorant of market conditions does not possess the knowledge necessary to bargain to his advantage with the trader, and is hence often deprived of a fair margin of his profits.

The financial help offered by Government being mainly for permanent improvements to the land, it does not form any appreciable part of the financial obligations of the rural agriculturist.

Of all the agencies that can render efficient help to the rural agriculturist, the co-operative society is best fitted. The usual complaint of the agriculturist against these societies is that his calls are not promptly met by the district banks, that the rate of interest charged, namely, 9½ per cent is rather high for amounts exceeding Rs. 1,000, that the period of repayment never exceeds five years, and that the maximum loan advanced by co-operative societies per individual is only Rs. 3,000 which does not meet the needs of all classes of agriculturists. The last complaint being only from a necessarily small number who are generally able to obtain credit facilities easily from other sources need not be seriously tackled. The first complaint can be easily redressed by the opening of more central banks at the rate of one per every 100 societies, so that there may be closer contact and greater accessibility of the central banks to the rural societies, and consequent reduction of delays in the disposal of loan calls from the societies. The second and third objections can be overcome by the constitution of land mortgage banks at the rate of at least one for each taluk offering money at not more than 7 per cent for permanent improvements to land, or for the redemption of lands from prior mortgage loans or for the purchase of lands, and by fixing the period of repayment between 10 to 20 years according to the nature of each loan.

2. The principal wet crops in the district are now mostly sold in the village itself to petty traders or brokers of big merchants in the neighbouring town, from time to time. The more well-to-do generally stock their crops till July or August and then sell them for a favourable price. But the rest, not having the facilities for storing crops for five or six months generally dispose of them soon after harvest for payment of kist. Their urgent domestic expenses also press them to dispose of their crop as early as possible. The system of crop loans and the formation of loan and sale societies on a co-operative basis, to dispose of the produce at a fair price are to a certain extent trying to protect the small agriculturist

from the enterprising middleman who desires to buy up the produce at the threshing floor itself. But these have to develop a great deal, before one can say that they are of any substantial help to the small and thrifty agriculturist who makes an earnest attempt to rise.

In the case of dry crops, such as groundnut and cotton, prior advances are often received from the companies and individuals for raising the crops. The price is sometimes fixed beforehand and the agent takes away the crop after harvest, paying the balance due to the agriculturist. Dry crops not required for the foreign market, are like the wet crops sometimes sold in the village itself, and sometimes in the town market by petty village traders who purchase them from the rural producer to sell them at a profit in the town market.

3. The value of wet land per acre varies from Rs. 800 to Rs. 1,200 according to the nature of the soil. The same land in the case of auction for court decree or non-payment of kist, often goes down by one-half in value. In the latter case, various factors govern the price, namely, the availability in the village of men of means to buy lands, the impression in the minds of the people that lands can be had cheap in auction, the size and situation of the village, etc. Ordinarily in a big village with a teeming population, there is always a good demand for land and there is less margin between the normal value and the auction value.

4. There is no legal impediment to the mortgage of land. There are very few land mortgage banks in the Presidency and they are too young for me to say much about them.

In the event of non-payment, the mortgaged land may be sold after decree in the presence of the Sub-Deputy Registrar of Co-operative Societies in the district, and the secretary or president of the bank after giving due notice of the sale to the public. Reference to record of rights and registration of records need not be charged for, as is now the case with regard to the grant of encumbrance certificates to co-operative societies. The working capital of the land mortgage bank should be derived at the outset from all available sources, care being taken to see that at the outset deposits are not accepted for less than five years. Debenture bonds without Government guarantee are not likely to command public credit, until the land mortgage banks function and establish their credit. The Government may be protected against unnecessary loss by the stipulation that the Tahsildar or the Deputy Tahsildar of the area in which the bank works should be an *ex-officio* member of the loan committee of the bank. His estimate of the land shall be binding on the governing body of the bank; where they differ from him, they may have a right of referring the matter to the Deputy Collector of the division whose decision shall be final.

The borrowing rate of the bank should vary from 4 to 6 per cent, and the lending rate between 7 per cent and 8 per cent according to the amount lent, and the local rates of interest.

In the absence of land mortgage banks, Government themselves may lend the money, the amount advanced being a certain multiple of the revenue kist for the land. The exact multiple has to vary according to the nature of the land and the conditions of the village.

5. I have not got with me definite figures with regard to the indebtedness of the agricultural classes in any village. But, such an estimate can with reasonable accuracy be drawn up by selecting typical villages, taluks and districts for survey. The co-operative societies in these areas will afford useful material for arriving at a correct estimate.

6. To the allied and supplemental industries mentioned in the list I may add, weaving, basket work, rattan work, brass work, toy-making etc. Co-operative societies are the best media for affording financial help to these industrialists. That the finished products may have a sale, whole-sale societies must be organized at convenient centres to pool them and advertise them for sale. Co-operative societies may also be organized for supplying the raw materials needed for the small industries.

7. As already remarked, the chief difficulty in the case of co-operative societies for short and long-term loans is the delay in the grant of loans. This is bound to be, so long as the central bank functions from a distance

entering to the needs of societies about which it has little personal knowledge. The result is there is much long-drawn correspondence before a loan is sanctioned, and that drives the borrower to other money-lenders. The average villager is at present too ignorant to foresee his needs and provide for them by applying to the co-operative society for loans in time. Increasing the number of financing banks in the district by permitting some of the more important urban banks in the district to lead to co-operative societies or by making co-operative supervising unions, financing unions also, is the remedy. I prefer the former alternative. No extra capital is required for financing co-operative movement. In fact, the capital available is not being fully utilised by the existing co-operative societies.

On account of the nature of the loans advanced, and the limited extent to which these banks afford relief to the agriculturist, at present, I am not aware of any competition between the joint-stock banks and co-operative banks.

The co-operative movement will get some encouragement if the concessions suggested are offered. But the movement is not spreading as rapidly as it might do, mainly because the human material necessary for working up these societies, is not available in all villages, and because of the delay in the grant of loans.

II.—Indigenous banking.

1. The indigenous bank or banker affords financial help for agriculture, trade, industry and other domestic expenses. They are resorted to for urgent loans of a speculative nature. They demand higher rates of interest than the other banks, because of the risks involved in their business. Their terms are very exacting. Interest has to be paid in advance for the amount borrowed, no rebate of interest is allowed for the monthly payment of a portion of the principal and high penal interests are charged for non-payment at the stipulated time. This lending rate varies from 12 per cent to 25 per cent, and more, according to the amount advanced and the status of the individual applying for the loan. Some lenders are in the habit of collecting their dues every day from petty traders and if proper calculation is made, the rate of interest works up to over 75 per cent. But the lenders justify their heavy rates by reason of the huge risks involved in their transactions. They point out that they lend money to people who could not dream of obtaining loans from a co-operative or joint-stock bank. If the co-operative movement takes root in the soil and extends its benefit over a wider area, the indigenous bank or banker will necessarily have to revise his methods and terms. The best way to make them useful to the people is to develop the co-operative movement in all its phases.

III.—Investment habit and attraction of capital.

1 & 2. I cannot think that the people have not got the investing habit. Public institutions offering reasonable facilities for investment and withdrawal are not within the easy reach of villagers. The only public institutions now available to the villager are the postal savings bank and the co-operative society. Sometimes, the villagers organize chit-funds for which payments have to be made monthly or half-yearly or annually, according to the condition of the majority of the members subscribing to them. But these funds are not run on sound financial principles. Sometimes lots determine who should draw the amount; sometimes the amount is let in auction when the needy man is mulcted by all the rest joining together and making the bid as low as possible so that their dues for the instalment might be low. Good propaganda work has to be done in the village to induce the small agriculturists to deposit their savings in the postal savings bank. The postal savings bank even where it exists is not well known to the villager. It is mostly resorted to, only in urban areas. The co-operative society with its provisions for the receipt of various kinds of deposits, savings, recurring and fixed, offering higher rates of interest than the post office probably offers a better attraction to the investor. Government may also frame a comprehensive set of rules for the working

of the chit-funds with a view to see that this system with which the agriculturist and the artisan big and small, are very familiar, is run on sound financial principles. A good deal of propaganda work will have to be done before the agriculturist who is ordinarily hard of cash, can be tempted to invest his money for long periods in postal cash certificates, Government securities, etc.

3. The agriculturist generally sells a good part of his produce at harvest time reserving for his expenses during the year, a quantity which he can easily stock. He sells this from time to time, as need arises and he spends it off almost immediately. Hence, his surplus is mostly in kind, in the shape of grains which he sells when he is in need of cash. The agriculturist who is only an agriculturist, has rarely any surplus money on hand. Hence he has no scope for investment. If occasionally, there is any surplus, he generally lends it within the village.

5. Propaganda among the people to invest their savings in productive undertakings will be of value only after efforts are made to develop the productive capacity of the villager. At present, far too few amongst the rural population have any surplus to invest. Until facilities are offered to the agriculturists to take to some supplemental occupation so as to increase their earning power, propaganda work to promote the investing habit among them may not bear much fruit.

**Written evidence of M.R.Ry. R. SUBBARAMA AYYAR Avargal,
President, Anayampatti Co-operative Union, Limited,
Anayampatti.**

I.—Agricultural credit and credit facilities for small industries.

1. For agricultural purposes ryots require immediate credit from co-operative societies. But these societies are not able to finance them immediately for their urgent agricultural purposes. So they get loans from sowcars at abnormal rates of interest, i.e., 37½ per cent per annum. At the time of cultivation after due seasonal rains, ryots require loans for the purchase of manures, bullocks, etc. After due intimation to the society by the members of their necessity, a loan application is prepared and sent to the district bank through the supervising union to get the amount sanctioned. It covers at least 15 days to disburse a loan to a society. In the meantime, the purpose for which agriculturists require loans is lost and so he is driven to the necessity of going to sowcars to get loans at 37½ per cent per annum repayable in 4 months. This being the case, there is no difference between a village where a co-operative society exists and where it does not.

On an average 2 crores of rupees may be required for agriculturists in the Salem district.

Necessary arrangements should be made to disburse loans to ryots within 2 days of their asking a loan. To facilitate this there should be a branch of the district bank or a transmitting agency society at the headquarters of the supervising union. If only these are done co-operative societies will prove useful to ryots.

In some cases loans issued by co-operative societies prove bad, where Government have granted takavi loans. During Revenue sale of the lands mortgaged to co-operative societies, in some cases, the sale amounts are considerably less than the amount due to the society. If this occurs, orders for resale should be ordered. The Revenue authorities should treat the amount due to societies as their own. It takes a good long period to execute a decree through the Revenue Department. To minimize delay and avoid loss, Government should invest the supervising union or the district bank with the powers of execution.

2. Agriculturists get their produce during the months of January and April. They at once take them to the taluk centre and sell them at a low price to the commission merchants for their immediate expenses, i.e., kist, family expenses, and clearing off prior debts which were incurred during the months of July to December for their household expenses. Some well-to-do persons sell their produce in July and August at a little higher rate. The produce got in the dry lands are utilised for their maintenance in the meantime. Ordinarily ryots do not sell the produce realized in dry lands.

Granting of produce loans to the ryots will be very useful. But it would require heavy establishment charges and costly godowns. Persons will not come forth for managing unless something substantial is paid to them.

At present the money due by societies to the district bank when remitted through taluk sub-treasuries causes much delay for the amount to be credited in the accounts of the bank. The restriction that less than Rs. 150 will not be taken by sub-treasuries should be removed, as it enables a society to temporarily misappropriate till Rs. 150 is collected.

Hundi system is not prevalent in these parts.

3. (1) The value of wet land per acre where paddy is grown varies from Rs. 750 to Rs. 1,200.

(2) Tobacco growing well irrigated lands vary in price from Rs. 1,000 to Rs. 1,500 per acre.

(3) The price of an acre of land where chillies, onions, etc., are grown is as quoted in No. 2.

Ryots would not like to lose their lands simply for the non-payment of kist. Seventy-five per cent of the value of land is realized in court sale. Ninety per cent of the value of lands is realized in private sales.

4. No land mortgage bank exists in these parts. Unless the district bank be permitted to grant 12 years loans to societies as before, ryots will suffer very much for long-term purposes. Debentures could not be floated in this area and as such no land mortgage bank could work on possible lines.

Properties mortgaged to co-operative societies by Muhammadans could not be ascertained whether they belong to them alone, because in certain cases, they encumber some of their properties during their marriages as 'Mahai'. The society is not able to ascertain which properties are encumbered because the mahai is not a public record. When the defaulter drives the society to go to court, litigation comes. The whole property mortgaged to the society is proved that it does not belong to him according to Muhammadan law.

If a borrower in a co-operative society wilfully evades payment of his dues properly, the charges incurred by way of collection, expenditure for arbitration and execution must be borne by him. Unless there is some pressure on the borrower to repay the amount, he will not repay the dues punctually. As at present, the rules and regulations do not permit to recover the amount due, immediately as a borrower defaults. He volunteers himself to send his case for arbitration and Revenue execution. It is un-co-operative to utilise the savings of the punctual members for realizing the amounts due by defaulters.

Cultivation of lands commences from September to November. If there is sufficient rain in September the whole lands are cultivated within September. If there is not sufficient rain, cultivation prolongs till November. For cultivation expenses in September agriculturists require money urgently for the purchase of cattle, for the advance to be given for labourers for the whole year, cost of manure, costs of ploughing and other necessary expenditure such as cost of seedlings, etc. They ask loans in societies. The society could satisfy their wants only after 15 or 20 days. The period taken for disbursement of a loan is as follows:—

Four days for preparing loan application by the supervisor after due intimation to the union and observing the necessities such as overdues by the panchayat to the society and overdues by the society to the bank.

Two days for the union to sanction by circulation and despatch.

Three days for the district bank to sanction by circulation.

One day for intimating sanction to the society.

Two days for registering and returning the pro-note to the bank.

Two days for receiving the loan from the bank.

Two days for disbursement after getting pro-notes executed by parties to the society.

*So, on the whole it takes at least 16 days if loan is to be disbursed to members urgently. In the meantime the purpose of those who do not wait for this loan is otherwise served by receiving loans from local sowcars at the following rate of interest:—

To cultivate an acre of land, an agriculturist requires both grain and money in the proportion of 2 to 1 respectively. For these expenses he goes to the local sowcar and gets a loan on these conditions:—

(1) If a ryot wants a loan of Rs. 100 from a sowcar for a period of four months, he executes a pro-note for Rs. 100 at Rs. 3-2-0 per mensem. At the time of payment of the loan, the interest for 4 months, i.e., Rs. 12-8-0 is deducted and he is paid only Rs. 87-8-0. At the end of four months, the ryot should repay Rs. 100 to the sowcar. If the amount is not repaid another Rs. 12-8-0 as interest for the next four months should be paid. If this also is not paid, the pro-note is sued on and the amount recovered with interest. On the due date a cooly is sent for collection. If the amount is not repaid, the wages for the cooly, i.e., one rupee per visit is recovered from the borrower.

(3) If an agriculturist wants 100 Madras measures of paddy, he is supplied with it on condition that he repays in four months 150 Madras measures of paddy, the excess of 50 Madras measures of paddy being the interest for four months. For this purpose he executes a pro-note to the sowcar to the value of 150 Madras measures of paddy at 37½ per cent per annum. If in 4 months 150 Madras measures of paddy are not repaid, the pro-note is sued on and the amount recovered.

Owing to the societies not satisfying the needs of the borrowers at all times, they get loans from sowcars at abnormal rates of interest. Owing to much pressure they clear the outsider's loan from their income. Consequently, their overdues to the society increase. The society could not realize the amount as the local sowcar because of the joint responsibility. If the office-bearers of societies are given a substantial sum either as honoraria or as monthly salaries, according to collections, enthusiasm will be greater, overdues to the district bank will be minimized and the societies will work on proper lines and the needs of the members will be properly attended to.

Written evidence of M.R.Ry. N. CHAKRAVARTHI AYYENGAR
Avargal, B.A., L.T., Headmaster and President,
Sattur Town Co-operative Society, Sattur.

1.—Agricultural credit and credit facilities for small industries.

1. The present system by which the agriculturist in these parts obtains finance for expenses during cultivation is by borrowing from co-operative societies, from individual bankers and money-lenders by pledging jewels, by executing promissory notes, etc. The money for purposes of capital and permanent improvements is got from the Government through the Revenue Department or by hypothecating immovables to co-operative societies. The money needed for special needs is obtained either from moneyed men or co-operative societies. The rates of interest charged are 12 per cent normally and more in special cases, the periods varying between one year and three years, the interest in some cases being paid annually in kind, that is, paddy and such other products.

It is only co-operative societies that play a very great and useful part in the agricultural finance of the district since the access to these societies and the process of getting money from them are easy enough from the ryots' point of view. The loans that can be obtained from Government through the Revenue Department are not easily available to uneducated ryots. In rural societies, very often, it is one man's management who, if he turns out to be selfish, does more harm than good to the ryots. The comparatively low rate of interest offered by the societies is taken advantage of by the executive in certain societies who raise benami loans for the purpose of lending the amount at a higher rate of interest to members who are unable to repay the loans to societies in time owing to failure of crops or other unforeseen circumstances. There is great room for co-ordination between the societies, supervising unions and credit agencies such as banks, etc. The loans should be made available to ryots as soon as they require.

2. The principal product that is being marketed in these parts is cotton which is being purchased and ginned by the various foreign agencies here. The middlemen or brokers play a great part here by taking advantage of the ignorance or pressure for money of the ryots. A good deal of benefit may be conferred on the ryots by starting co-operative sale societies as the one at Koilpatti in centres like Virudhunagar and other places. Other products such as coriander, cotton seeds, chillies, etc., are being stocked, part of the money required being raised by offering the commodity as security to individual bankers.

Handis are no doubt prevalent in these parts, but all of them have to be cashed or exchanged only in big centres like Madura at a discount of one or two per cent as the case may be. These hundis or bills must be made current throughout without any discount in the face-value. Hundis are sometimes paid on presentation or after a certain period from the date of presentation.

3. The value of land per acre in these parts varies from Rs. 500 to Rs. 3,000, the crops cultivated being fodder, cholam, ragi, cotton, paddy, etc. The land would fetch nearly 60 per cent of its actual value in Government auction, 75 per cent in sales by court decree and almost the whole amount in private negotiation.

4. There are no land mortgage banks in these parts; but they are a long-felt necessity since long-term loans can be made available to ryots only by starting land mortgage banks. The financing of such banks should be by means of deposits and loans from central banks in towns. The central bank may be financed by getting deposits, loans from Government and debenture bonds.

5. The agriculturist, in the absence of such banks, gets money by hypothecating the lands to money-lenders who finally become the owners of these lands and the farmer being deprived of his land becomes a mere

cultivator and loses the incentive to produce more by improving the land. The interest on these long-term loans ranges from 9 to 12 per cent compound interest. In some cases, the money-lenders refuse to take back the money before the stipulated period and in instalments. In cases where the property is two or three times worth the money for which it is hypothecated, the money-lender keeps quiet without ever demanding the debtor for money with the wilful object of appropriating the land for himself. These defects can be safeguarded against only by the institution of land mortgage banks.

Loans are often raised for payment of earlier debts, marriage and other social functions, payment of land revenue and education of children and chiefly by rich landowners for agricultural purposes. The average need of a ryot will come to nearly Rs. 300 per year.

6. The chief industries are spinning, weaving, rope-making, getting fibre from aloes, cattle-breeding and basket-making from palmyra leaves and fibre. The products may be pooled by co-operative agencies and disposed of by them at a profit to the consumers. The co-operative societies should further advance money for enterprises of this kind. The farriers when they have no work might be employed in land improvement schemes such as sinking wells, digging channels and other spade work in fields.

7. There is practically no connection between co-operative banks and other banks—the Imperial Bank, joint-stock banks, etc. The farmers rarely get long-term loans and many of them become defaulters simply because the time allowed to them is not sufficient to enable them to repay them to the bank out of the small profits that they realize from the produce every year. Again, money should be made available to people as soon as they require; but as it is, they get loans nearly a month after they apply which is like feeding a man when he has lost his appetite. The forecast system is not of great use, because unforeseen expenses are often incurred. By-laws should be framed in co-operative societies enabling them to lend money to members at once on the pledge of jewels, chiefly of gold. The central banks should advance loans to societies on pro-notes from societies without insisting on registration in the Sub-Registrar's office. This would lighten the work of the societies and of the Registration Department.

II.—Indigenous banking.

Indigenous banking is practically of no help to agriculturists who are unable to pay the high rate of interest from the profits realized from land. It is of some use to traders who are able to make large profits sometimes. Indigenous banks are chiefly transacting business with the Imperial Bank. Indigenous banks both in villages and towns have much capital which is not being disbursed for want of sufficient security or on account of the high rate of interest. It is further a question whether indigenous banks can be profitably linked with other banks for the benefit of the people. Many of them do not lend except on very sound security for fear of litigation and the incidental expenses.

III.—Investment habit and attraction of capital.

1. People of average income invest their savings in making jewels. The masses must be educated in the principles of savings even though they may be small. The institutions which encourage saving are the permanent fund, chit funds, insurance companies, the post office savings bank, co-operative societies and banks, etc. There are facilities enough for saving; but the people should be taught to take advantage of them. It is only people with much income having regular monthly disbursements that invest in these banks. The labouring classes should be made to save at least a tenth of their income. Postal cash certificates can be said to compete with the Imperial Bank and the joint-stock banks but not with co-operative banks in attracting deposits.

3. The agriculturists do not make use of their savings in a particular year by way of investment; but spend it in jewels and in marriage expenses. It is only those that have a large surplus of income that invest in the purchase of lands or their improvement.

4. The cheque habit is growing in importance and it is a useful instrument in the hands of the Government, banks, etc., and does good to merchants, Government employees and co-operators.

5. Banking and investment habit in India is indeed of slow growth and propaganda by means of advertisements and opening of additional banks will be effective, in bringing the desired result.

**Written evidence of M.R.Ry. Rao Bahadur T. S. BALAKRISHNA
 AYYAR Avargal, B.A., B.L., Coimbatore.**

I.—Agricultural credit and credit facilities for small industries.

1. There is no regular system, but every ryot who requires money for the various purposes indicated in the question borrows from the nearest money-lender or banker; and latterly, from the co-operative societies.

The interest charged varies from 12 to 24 per cent per annum, except in the case of co-operative societies.

The part played by Government in agricultural finance is inconsiderable, the only provision made by Government being under the Agriculturists Loans Act, which provision, however, is not so freely utilised as it might be, owing to a variety of causes. The Imperial Bank is of no help directly to agricultural ryots; but the joint-stock banks and co-operative banks and other private money-lenders do finance the ryots.

The Government may afford greater facilities in advancing agricultural loans; and the Imperial Bank may also help agriculturists by making liberal advances.

2. The chief crops of the district are now marketed chiefly in big centres where there is always a demand for them from outside merchants and agents; and also in the various weekly markets of which this district is full.

Co-operative effort in marketing the produce is certainly desirable; a beginning has been made in this direction by the Co-operative Department which has started a few trading societies which collect the produce of its members and make advances on them and wait for a proper season to profitably dispose of them. An extension of the system is desirable.

3. The value of wet lands in well irrigated areas ranges from Rs. 2,000 to Rs. 3,000 an acre; and dry crop lands from Rs. 200 to Rs. 1,000 per acre. The rise in the value of lands arose first in consequence of the Arbuthnot crash in 1906, as it shook public faith in deposits in banks, and induced people to go in for a safer and more permanent investment in lands. During the war, the prices rose still further owing to scarcity of money and advance in prices of produce; but during the past few years, a downward course has come in.

(a) Lands sold for arrears of revenue generally fetch a very low price but such sales are very infrequent.

(b) In court sales the full value of the lands is not secured owing to clouds on titles and want of sufficient bidders, but in private sales, lands usually fetch full value.

7. There is practically no touch and no competition, between the co-operative banks in this district and other banks except in the case of the Imperial Bank which has been allowing an overdraft to the co-operative bank. Some joint-stock banks in the town keep current account with the co-operative bank, chiefly for their convenience, but the co-operative bank is not really benefited to any extent thereby.

• Though the joint-stock banks in this town (of which this town alone possesses an unusual number of about seventy, and the whole district about 130, this being the only town and district in the Presidency possessing such a large number) generally offer a higher rate of interest on deposits, the co-operative bank is not feeling the competition as it always attracts deposits, though at a lower rate, up to its maximum borrowing power. It is doubtful if it will continue to attract more deposits if its maximum borrowing power is raised.

If public and trust moneys are allowed to be invested in the co-operative banks, it will be a substantial help to the co-operative movement.

III.—Investment habit and attraction of capital.

1. The growth and existence of the *nidhis* in the Province has encouraged habits of saving and investment among the public.

The post office savings bank also contributes facilities to a large extent.

But the interior smaller places have not got the required facilities. The co-operative societies in such places ought to be made to attract more capital therein.

**Written evidence of M.R. By. V. C. RANGASWAMI Avargal,
Lus, Mylapore.**

General.

The answers I am giving to the questionnaire issued by the Provincial banking enquiry committee apply generally to the whole Province of Madras, and peculiarities prevailing in any particular district or other limited area in the Province are not noticed.

The object of banking is to mobilize credit for the purpose of financing the productive industries of the country. In India, and particularly in this Presidency, agriculture is the most important productive industry, both as regards the extent of its operations, and the number of people engaged in it. The problem of banking here is how to finance the needs of the agriculturists. Owing to the peculiarities of land tenure and the laws of inheritance, the tendency is for land to be cut up into small and even uneconomic holdings and consequently, the peasant-proprietor is very often not able to secure a margin on the yield of his land, after meeting the expenses of cultivation and of his own livelihood, to put by enough money to finance the needs of the next season. He is almost always in need of accommodation, and the sources which he could get at for this accommodation at present do not make for his prosperity. He has to pay an unconscionably high interest, and the vagaries of the monsoon and the market which is essentially international, make uncertain the possibility of his ever repaying the loan. The debt-load is ever on the increase, and agricultural prosperity is slowly but surely vanishing. The Agricultural Commission have dealt with one aspect of the problem, by advocating measures for checking fragmentation of holdings and for promoting the enriching of the soil. It is the duty of the Banking Enquiry Committee to recommend sound measures for the organization of efficient agencies which will make available to the small agriculturists, short-term loans at cheap rates of interest. I hold the view that this could only be achieved by a careful and methodical expansion of the co-operative institutions. Private bankers and most of the joint-stock banks are more anxious to make their profit as large as possible thereby crushing the borrower, than to facilitate agricultural operations by fair and easy terms of credit, which really make for national prosperity in the long run. The only State aided bank in the country has no touch with the agricultural population and its vast resources are unavailable to it. The exchange banks also do not concern themselves with this. Co-operative institutions, therefore, are alone capable of solving the problem of rural indebtedness.

Thus, in my view, the main, if not the only business before the Committee, is to devise measures for the extension of the co-operative movement, and to elevate those institutions with a secure position where they would not have to fear the competition of the unsympathetic private bankers and joint-stock banks. There is no other solution that suggests itself to me. But I must admit that a sound system of co-operative institutions pre-supposes a standard of education, efficiency and character which is perhaps lacking in the conditions of the Presidency to-day. Until these could be ensured, the existing credit sources have to be rigidly controlled and abuses of financial power, curtailed as vigorously as possible. I am in favour of stringent laws, to restrict the rate of interest up to a limit, to compel every person or body of persons carrying on banking business, to keep accounts in approved ways and to require them to publish their balance sheets periodically. The investing public, as well as those responsible for the financial policy of the country are immediately interested in these measures.

I desire also to add a word about the investment habit. This habit is decidedly gaining ground, as evidenced by the huge leaps in the amount of deposits in the various banks. But it must be remembered that large resources are still untapped. The conservative-minded people, and those are the well-to-do people of the country who have any money to invest, are still shy of trusting banks as such. It is not unusual to find even a lakh of rupees in cash lying in safes or buried under earth, in the houses of rich rural landlords. The Committee has to suggest ways of attracting these large idle resources, so that banking in its real sense, may become a universal feature in this country. For, idle money, money not

circulating and not functioning, is so much energy locked up and without use, whilst every nerve of a nation has to be strained if it is to hold up its head in a highly competitive age.

1.—Agricultural credit and credit facilities for small industries.

1. The agriculturists in the Province of Madras generally obtain finances for cultivation expenses mainly from money-lenders in the village. They either obtain loans in cash or if it is for seed purposes, they borrow in kind, undertaking to return a definite quantity of the grain soon after harvest. This generally costs the ryot heavily for he has to return a much larger quantity of grain than he had borrowed for seed purposes. The rate of interest, if computed in money, at times goes as high as 80 to 100 per cent. Regarding capital required for permanent improvements to his estate, here also he generally looks to the village money-lender for accommodation and if the amount happens to be really considerable, such loans are always given only on the mortgage of the land that the cultivator owns. The rate of interest on such mortgages generally depends upon the amount of loan taken by the cultivator. It ranges between 9 and 18 per cent. Even for the payment of the land revenue and to keep himself going in times when the monsoon fails, he looks to the village money-lender or to the village shop-keeper. In the latter case, namely the village shop-keeper, when there is a failure of monsoon, he goes for the purchase of the necessities of life. In the organization of the Indian village, the village shop-keeper is not only a shop-keeper but is also a purchaser of the produce of the land. Also to a certain extent he plays the part of a petty banker to the village folk. In his combined capacity the village shop-keeper wields a great deal of influence and power over the cultivator. The rate of interest charged by the shop-keeper is generally 12 per cent in the large majority of the villages in the Province. If the loan is given on the understanding that the cultivator is to sell his produce at the next harvest to the shop-keeper, then the rate of interest generally far exceeds the 12 per cent that is charged for cash advances. In certain cases the rates reach as high as 36 to 48 per cent. Of course for all loans beyond Rs. 100 or Rs. 200, the village money-lender generally takes as security a mortgage upon the land of the cultivator. Advances on standing crops have got to be considered on the kind of crops that are grown on the land. Industrial crops generally attract the big shippers of such crops to foreign countries, who through their organized ramifications always succeed in advancing not only on standing crops but on future crops also. At the time they advance money, they fix the price of the crops to be grown by the cultivator, and at harvest time the crops are handed over to them, at that price. In their avidity to get ready cash, the cultivators are handicapped on account of the fact that the exporting houses and their representatives fix the price so low that the difference between the rate agreed to by the cultivators and the rate that prevails in the market is unfavourable to the latter. If this difference is computed as interest, I believe it must work to a very high percentage. But, I am unable to give the exact or even an approximate estimate of the probable rate.

The part played by Government in financing agriculture is to be gathered by a reference to the Land Improvement Loans Act and the Agriculturists Loans Act. It is only under these two Acts that Government undertake directly to finance agriculture. Opinion is generally held by those who are in touch with this question that these loans granted under directions of the Revenue Department do not, as a fact, greatly benefit the agriculturist.

The Imperial Bank of India does not directly finance agriculture in this province. The only way in which it may be considered that the Imperial Bank of India helps agriculture, is by taking into consideration the advance they make upon produce. This is generally made to big merchants and land-holders in the districts. Of course the big merchant or the landlord plays his part in the movement of produce and in his rounds for collection of produce, he makes his own advances to the producers. The help rendered by the bank to such merchants or landholders cannot be said to benefit agriculture except in a very indirect and remote way. The joint-stock banks also do not come directly into touch with the large majority of the agriculturists and as such do not contribute in any tangible way to advance agriculture. I may perhaps mention here that the co-operative banks in the province are the only organizations that have any

direct dealings with the agriculturists. The main business of the co-operative banks is to mobilise capital for being lent out to the agriculturists in the primary societies.

The indigenous banks.

Under this term we may include the Chetti bankers, the Multanees, Guzerattis and Marwaris and the Nidhis.

The Chetti bankers' main business is outside the province, except in a few cases where they purchase produce in bulk for export. They generally come in immediate contact with the agriculturists.

The Multanees bankers mainly confine themselves to discounting hundis, advancing upon goods in commercial towns and also make advances to merchants upon their bills. It is not known whether these bankers ever care to extend their financial help to the agriculturists.

The Guzerattis and Marwaris mostly live in big commercial towns and the chief cities of the province and have no dealings with the agricultural community.

The nidhis are peculiar to the Presidency of Madras. They are credit institutions in towns which help the middle-class men in a great variety of ways. It mobilises capital mainly from its shareholders by way of a definite monthly contribution by each one of the shareholders. They also accept deposits from them. The rates paid by the various nidhis in this Presidency vary from 6 to 9 per cent on the contributions made by the members.

These institutions advance loans only to their shareholders; but in some of them, owing to large accumulation of capital, they have found it necessary to extend the loaning facilities to non-shareholders also. Loans are given as follows:—

- (1) On the security of the paid-up amount of the contributions,
- (2) on the security of the deposits made by the members.
- (3) on the pledge of jewellery, and
- (4) on the mortgage of residential buildings and building-sites.

These institutions have contributed greatly to the saving habit of the middle-class men. They are also, to a great extent, helping their members to put up buildings for their residence. But there is a great deal of difference in the working methods of the various institutions. All these institutions have been registered under the Indian Companies Act, but recently due to a judicial pronouncement, these institutions have been proclaimed to be illegal, since they go against the provisions of the Indian Companies Act. As the institutions are peculiar to this Presidency, it may not be possible to amend the Companies Act which has force throughout India. Special legislation may have to be made to place these institutions on a legal basis. Further, proper legislation has also to be made for the efficient working of these institutions.

According to the information available, it is found that the total area of arable land in this Presidency is roughly 4 crores of acres. Putting it at the lowest the cultivation expenses for each acre is Rs. 10. 40 crores will therefore be required for advances towards cultivation expenses. Added to this, it is necessary to relieve the cultivator of the dead-weight load of prior indebtedness. It is roughly estimated that the load of debt may be computed at not less than Rs. 100 crores. So in all, it will require anywhere between Rs. 150 to Rs. 160 crores, if the debt problem of agriculture is to be tackled with success. The Presidency contains 36,000 ryotwari villages and we have to add to it the zamindari villages also. So the problem of agricultural finance is of the first importance to the well-being of the country.

The defects in the present systems of finance of agriculture are very many. The first and foremost is that the co-operative movement has not even touched the fringe of the agricultural needs. There are a large number of villages in which there is not a single society. The snail's pace at which the movement is progressing, makes one doubt whether in the near measurable future, there will be sufficient expansion of the movement to help every village in the province. The appalling ignorance and illiteracy of the cultivator is a standing bar against quick and efficient expansion. No steps have been taken either by non-official agencies or by the Government to educate the large masses of the agriculturists on the root principles of co-operation.

The expansion of the co-operative movement is inextricably mixed with sound co-operative education and propaganda, else any sudden expansion of the movement will spell disaster. The financing of agriculture by private money-lenders and other agencies have this defect in common, namely, that they are not interested in the uplift of the agricultural masses. The private money-lender generally looks to the safety of his investment and in very many cases, the transaction is entered into with the idea of appropriating the agricultural land for himself. What with the high rate of interest charged by these private money-lenders and the desire to grab the land, the services rendered by these agencies to the agricultural population are of doubtful utility.

It is painful to note that there is a great deal of lack of co-ordination among the various credit agencies including that of the Government; need we say that by proper co-ordination there is great scope for improvement.

2. The present method by which the principal crops in the province are marketed, differs according to the nature of the crops. The method of marketing food crops and that of commercial crops vary. The commercial crops are largely sold to big shippers, who are established in the port towns, whereas the food crops are sold to wholesale local merchants. It also happens that some of the indigenous bankers like the Nattukottai Nagarathars, also engage themselves in marketing food crops. The methods followed by the foreign shippers have already been explained in a previous portion of this note. The methods by which the food crops are marketed are as follows:—

Small merchants and village money-lenders generally purchase the food crops on the threshing floor and then transport them to the nearest market centres for sale to the wholesale buyers. The wholesale buyers generally arrange with a commission agent in the market centre for the purchase of definite quantities of these crops. After the purchase is effected the produce is transported to various places in the Presidency and then goes through the process of retail selling before it reaches the consumer.

There is a great future for the formation of pools of commercial products on a co-operative basis. The pooling is likely to lead to grading and in its turn will lead to better prices to the producer than under the existing conditions. The credit facilities now available for the advance against produce during marketing is very limited and as such keeps the producer under the thumb of the village money-lender or the wholesale purchaser. Banking facilities for foreign trade are available in a comparatively larger measure, than, unfortunately, for internal trade. As already explained, the Imperial Bank of India is not directly connected or interested in financing agriculture. Of course, it offers facilities for advances on the principal produce of the Presidency to wholesale buyers and large land-owners. The large class of merchants do not have any banking facility and due to this, the rate of interest charged to them in the process of marketing is generally high. This portion of the business is mainly attended to by the Nagarathar bankers. The exchange bank is mainly interested in advancing on produce that is exported to foreign countries. They mainly finance European merchants. The facilities for internal trade at present, that are helpful to the public, are the post offices, the Multanis, the hundi merchants of Tinnevely, a few joint-stock banks in existence and the branches of the Imperial Bank of India. Owing to the paucity of banking organizations in many of the mufassal towns, the question of transfer of funds from one town to another is still a matter of great difficulty. The only suggestion for the improvement of transfers that I am able to offer, is that the existing co-operative banks must undertake remittance of funds from one place to another.

Negotiable instruments play very little part in the internal trade of the province. Bills are not extensively used by the merchants in this Presidency. The merchants have still to be properly educated in the use of bills in internal trade. This will contribute greatly to their profits and facilitate easy financing of the movement of crops from one place to another.

The hundis that are current in the country are what are called Dhari-sana hundis and Thavana hundis among Nagarathars. Even among the Multanese both kinds of these hundis are in vogue and in addition to these they have another kind of instrument called Shajog hundis.

The Dharisana hundis are demand drafts payable by the drawee of the bill to the holder thereof.

Thavanai hundis are usance bills having usance of any period not exceeding six months.

Shajog hundi is a peculiar instrument only understood by the Multanese bankers. The payment of such a hundi is generally made to a well-known merchant or a banker in the locality and the shareholder thereof has got to collect it through some well-known merchant or banker.

Regarding instruments indicating ownership to goods, railway receipts are the most common and they are generally made over to the bankers for advances by them. There is one defect with regard to this railway receipt. The Railway company delivers the goods to the consignee without production of this railway receipt, on the execution of an indemnity bond. In certain cases the bankers have been deprived of the right over the goods on account of delivery on indemnity bonds. Arrangements must be made for the registration of the bankers' lien in the books of the railway company and when such lien is brought to the notice of the Railway company, the Railway company should be prevented from handing over the goods to the consignee without the authority of the banker, who has advanced money on the strength of the railway receipt.

There are at present no licensed warehouses operating in the country so far as my knowledge goes. The system of creating licensed warehouses would greatly contribute to the movement of crops and also help in getting finance on easier terms than at present.

4. There are a few land mortgage banks working in this Presidency, which provide long-term credit for their members. They are organized on a co-operative basis and lend only to their members. A few of these mortgage banks have raised their working capital by issuing debentures on the security of the mortgages obtained by them. Only a few of them have succeeded in raising debentures. The only way by which these mortgage banks could be helped is by organizing a central land mortgage bank for the Presidency at the metropolitan headquarters, whose function will be to raise debentures in the open market for being lent out to the various primary land mortgage banks. Till then these land mortgage banks may not function satisfactorily. It is necessary that in order to make the transactions of these mortgage banks safe, a record of rights and titles of ownership is instituted in each district. Foreclosure and sale must be made easier by proper amendments in the Transfer of Property Act, etc. The working capital of the primary land mortgage banks may generally be contributed from funds lent out to it by the central land mortgage bank, which will raise debentures mainly for the purpose of financing these institutions. I am not in favour of allowing these mortgage banks to take deposits. To start with, the debenture bonds issued by the central financing institution may have a guarantee from the Government for the interest payable on them. The only safeguard for the protection of the Government against unnecessary loss is proper management of the institution by a well-qualified staff. I would also suggest the amendment of the Indian Trust Act to make the debentures issued by the central land mortgage institution trustee securities.

5. As already mentioned, the debt-load of the agricultural classes in this Presidency is estimated at near a hundred crores. This indebtedness can be ascertained by instituting a careful economic enquiry, and with all our care, the results can only be nearly accurate. The major portion of this debt is due to private money-lenders and indigenous bankers (Nattukottai Nagarathars). It is found from the statistics of the co-operative societies now functioning in the Presidency, that 50 per cent of the total working capital of all agricultural societies has been utilised towards payment of prior debts and the amount comes very nearly to 3 crores. As I have already indicated, the rate of interest charged on mortgage loans varies according to the amount borrowed and is between 9 and 12 per cent. There is a distinct tendency for efficient farmer-owners of land being converted into landless tenants on account of the foreclosure of the mortgages on their holdings. The number is not yet very considerable but the tendency is unmistakable. Surely it does not require any great force of argument to say that a cultivator has a greater incentive to work if he is also the proprietor of his land. Added to this, the number of small subsidiary industries available to the agriculturists in this land has been dwindling from day to day. Even the cottage industries of hulling rice, and shelling groundnuts, the villager has been deprived of, on account of the growth of power-driven machinery in towns very close to the villages.

6. Dairy-farming can be a subsidiary industry provided fodder and oil-cakes are available cheaply to the agriculturists. It is the duty of the Government to prohibit export of oil-cakes in order to cheapen the cost of cattlefood. Dairy-farming can then become a useful and profitable subsidiary industry.

Garden produce pays well only in places in the vicinity of towns. The distance of other villages from the main roads and from the railway line is a standing bar against making garden produce a subsidiary industry. Unless the railway freight is reduced and cold storage facilities are introduced for the carrying of vegetables from one part of the country to another, the market for garden produce will continue to remain limited and will offer no inducements to cultivators to take largely to it as a subsidiary occupation.

Hand-spinning is being advocated as a subsidiary industry. Unfortunately encouragement is not given to it by the Government. If sufficient encouragement is afforded to this industry, it is likely to become a subsidiary industry of great permanent value to a large number of agriculturists in the province. But the economics of hand-spinning has to be worked out and studied in an atmosphere free alike from the prejudice of Government and the almost fanatic faith of its apostles.

Sugar-refining and cotton-ginning are at present not subsidiary industries to the agriculturists, as most of them are done in factories under capitalistic regime. The only financial machinery that could supply capital for working industries, and give employment to the farmer during seasons when he cannot make full use of his time, is the co-operative organization.

7. The relationship that subsists between the co-operative banks and the Imperial Bank is as follows:

The central banks in the province have direct relationship with the Imperial Bank and have been allowed accommodation accounts on the security of co-operative paper. The provincial bank is also provided with a similar facility with the Imperial Bank. There is not very close relationship existing between the central banks and the joint-stock banks except in a few cases, where the central banks have invested their surplus funds in some of the joint-stock banks. In the provincial bank, a few of the joint-stock banks in the Presidency have opened accounts for purposes of cheque-clearing in the metropolitan city. There is no relationship at all between indigenous bankers and the co-operative banks. The main defects that exist in the matter of finance in the case of co-operative societies are as follows:

With regard to short-term loan there is the difficulty in negotiating the co-operative paper in the money market and as regards long-term capital there is the absence of a central financing agency floating debentures on the mortgage of immovable property. There is a certain amount of competition between the co-operative banks and the joint-stock banks in the matter of getting deposits. I have already stated that the debentures issued by a central land mortgage bank must be made trustee securities and I would like this concession being extended to debentures that may be floated by the provincial bank. I would also like that some sort of contractual guarantee is given to the co-operative banks in the matter of cash credits granted to them by the Imperial Bank. Further the Government should make arrangements with the Imperial Bank for accommodating the co-operative banks at rates of interest less than those, which are now being charged for such accommodation.

II.—Indigenous banking.

As already stated, indigenous banking is carried on by the Nattukottai Nagarathars, the Multanese, Guzerattis, and the Marwaris.

The Nattukottai Nagarathars generally carry on their business, either as an individual undertaking or in partnership with others. They have not started any joint-stock enterprise to carry on banking. There are 300 to 350 firms that do banking in the strict sense of the term. The banking activity of this community is mainly confined to discounting bills of their own community and lending money on personal credit to their own community men and to a small extent to outsiders. Their working capital is made up of their own money and loans from the public. The rate of interest paid by these bankers on borrowed capital ranges from 7½ to 9 per cent and in rare cases to 12 per cent. Their lending rate ranges from

8 to 48 per cent. They lend money on mortgage of immovable property and they charge any rate between 10 and 18 per cent. They do not advance money on movables. The greater portion of their working capital is invested outside the Presidency, mainly in Burma, Strait Settlements, Colombo and Siam. Their chief centres of business are concentrated in Madras, Calcutta, Rangoon, Colombo and Singapore. The agencies that finance this class of bankers are the Imperial Bank of India and the Indian Bank. The chief instruments of credit in vogue among these bankers, are demand bills (Dharisana hundis), usance bills (Thavanai hundis), the usance varying between one to six months and also pro-notes. In all these five centres they have their own communal organizations, rather loosely knit. These organizations settle the rate of interest for lendings, among themselves.

Multanese, Guzerattis, and Marwaris.

Of this group the Multanese are the most important. They are ordinarily partnership firms. They do every kind of banking business, except accepting deposits from the public. They trade on their own capital or on capital borrowed from their native places. Their lending rate varies between 6½ and 12 per cent. They discount internal trade bills very largely. The usance of these bills generally runs to three months. The rate of discount charged on these bills is 2 per cent above the bank rate. Occasionally when the market is dull, they discount bills at rates even lower than the bank rate.

The Marwari bankers generally trade on their own capital. A few of them accept deposits. They specialize in advancing money on goods.

The Guzeratti bankers trade mainly on their own capital. They do not accept deposits and their funds are largely employed in making advances to certain specified articles in the market. They generally lend on piece-goods and certain kinds of imported articles.

Many of the indigenous bankers have accommodation accounts with the Imperial Bank. Added to this, there is another class of bankers who are called hundi merchants. They mostly hail from the Tinnevely district, having their head offices there. They also do banking business of every sort, including deposit banking. Their working capital is composed of their own money and deposits are taken from members of the public. They have inspired great confidence in the people of their places, so that the residents there prefer depositing with them to depositing with the joint-stock banks or Government Savings Banks or with any other banking institution. They pay between 7½ and 9 per cent on deposits and charge 9 to 18 per cent on loans. They lend money to agriculturists, traders, and big merchants. They have connections not only among themselves but with other joint stock banks for the purpose of collecting and re-discounting the hundis. The rate of discount charged by the hundi merchants ranges from 4 to 6 annas per cent.

The feeling against the indigenous bankers is that they charge unconscionably high rate of interest. So far as these bankers are concerned, they are sufficiently protected in law.

There are very many ways by which the indigenous banking system in this country may be improved. There is a certain amount of want of faith in the general public with these bankers on account of the fact that their financial position is not known to the likely investors. They never publish statements of their accounts. If there is to be greater amount of confidence in them, they must, like the joint-stock banks and the co-operative banks publish periodically their balance sheet. This is necessary to safeguard the interest of the depositing public. I am unable to say what the attitude of the indigenous bankers will be with regard to prescribing regulations in the matter of publicity of their transactions.

The transactions of the indigenous bankers are such that it brings them into close touch with the individual borrowers and they are in a position to know clearly the status and the credit-worthiness of the person that comes to borrow from them. Owing to this intimate knowledge these bankers may be utilised in the manner in which the discount houses in England are used by the joint-stock banks. I would prefer branches of the joint-stock banks being established in all places where there is at least a population of 10,000 and through the instrumentality of these branches of the joint-stock banks, the indigenous banker can easily negotiate with the individual borrower on the one hand and with the central money market in the provincial towns on the other.

**Written evidence of M.R.Ry. M. SUBBIAH MUDALIYAR Avargal,
B.A., Sub-Registrar and Sub-Magistrate, Orattanad,
Tanjore district.**

I.—Agricultural credit and credit facilities for small industries.

1. The possible sources from which the agriculturist in this province or district (Tanjore) is able to get pecuniary accommodation for the purposes described in (a), (b) and (c) of question I are—

- (1) The Imperial Bank or its branches ;
- (2) joint stock banks and other private banks ;
- (3) co-operative societies, credit and non-credit ;
- (4) native rural bankers including Nattukottai Chetti bankers ;
- (5) Nidhis registered under the Indian Companies Act (Act VII of 1913) ; and
- (6) Government agency under the Land Improvement Loans Act and the Agriculturists Loans Act.

Of the above groups of institutions the relief that the agriculturist gets from the Imperial Bank may be said to be very limited in this Tanjore district in view of the fact that only three branches of the Imperial Bank have been functioning in this district, viz., at Negapatam, Kumbakonam and Shiyali. Apart from this the needy and small agriculturist who is unable to produce satisfactory security is unable to get accommodation in those premier banking institutions. Moreover they also seem to be averse to lending for long periods as a matter of general policy. Only industrialists, traders and others who offer such tangible securities as rice bags and other produce seem to get credit for short periods such as from six months to one year.

Other joint stock banks carrying on operations in this district can be counted on one's fingers. Such banks as the Tanjore Merchants Bank and the Kumbakonam Bank seem to show greater preference to traders and commercial people than to agriculturists.

Greater relief is afforded by the co-operative credit societies, urban and rural. As a large number of these societies are working in villages it is really a boon to agriculturists. These societies lend money on the security of land and joint pro-notes. If carefully worked, these societies are bound to bring good to the agriculturists. But owing to ignorance and other causes rural societies do not work so well as urban co-operative banks. There is not so much readiness to repay the loan as the readiness to secure it. The collection of overdues by the primary banks is the order of the day. Prompt repayment on the part of co-operatives seems to be an absent factor. On account of clannishness and narrow prejudices all sorts of people do not seem to derive benefit from rural societies. The societies also are handicapped by want of capital.

Owing to the above reasons among others some people have need to resort to the village money-lender. The rate of interest of the latter is excessive and extends up to 24 per cent and more. These usurers lend on the security of pro-notes, joint pro-notes, silver and gold jewels and on land. But people resorting to these people become heavily indebted and lose their belongings soon.

Last but not least come the nidhis registered under the Indian Companies Act, 1913, such as the Tanjore Permanent Fund, Limited. These nidhis are working at Tanjore, Kumbakonam, Mayavaram, Shiyali and such other big

places. The area of operation varies with different *nidhis*. Some have dealings on land throughout Tanjore district and others function only within certain taluks. These *nidhis* lend on the security of land and gold and silver jewels. The interest charged is generally in all cases six and one-fourth (6¼) per cent only, i.e., one pie per rupee per mensem. It is evident that it is a great boon to those who are able to produce satisfactory securities. The period of repayment is generally 45 months or earlier at the option of the debtor or borrower. These *nidhis* are a great boon to those with regular recurring incomes and to those who repay regularly; otherwise the penal interest is likely to accrue much and hang like a millstone round the neck of the borrower.

The Government lend to the agriculturists on the security of land under the Agriculturists Loans Act and the Land Improvement Loans Act. The interest ranges only from 6 to 7½ per cent and the Government seem to allow credit for five years and more. This is also of great benefit to those who get it.

It cannot be said that the above agencies collaborate and work together with a co-ordinated programme. This is really a desideratum. If this were to take place much overlapping and consequent waste of effort and expense may be avoided.

2. The chief products grown in Tanjore district are paddy, jowar, ragi, kambu, groundnut, gingelly, etc. Of these surplus paddy is husked and exported to other districts in the Presidency and Ceylon. Groundnut is bought and exported by such foreign firms as Rally Brothers, Lewis Dreyfus & Co. Other products are locally sold.

Joint purchase of paddy in the harvesting season and selling it at a dearer season may be profitable on certain occasions but not always in view of the fact that big landowners and capitalists hold the stocks without selling at the harvest time till a more favourable opportunity presents itself. Most of them instead of keeping on selling during a period of rising prices do not do so but wait and wait until a favourable monsoon brings down prices. In the period of falling prices all begin to sell and a consequent glut and still greater fall in price is the result.

The Imperial Bank or its branches, the Tanjore Permanent Fund, Limited, certain non-credit co-operative societies, the Indian Bank and certain other private bankers lend credit on the security of produce and bags of grain including paddy and pulses.

It is possible to remit money from place to place within India by sending drafts from bankers but on account of the paucity of banks this business is on a very restricted scale. The only universal medium by which money is remitted from place to place is by the postal money order system and by insurance post. Insurance of currency notes is best where large amounts are involved. Generally half currency notes are sent by registered insurance post for the purpose of safety and after acknowledgment of receipt the other half is sent by registered insurance post. But this involves delay. But sending through banks combines safety and despatch in business which is essential in trade and commerce. The cost of telegraphic money orders is generally very prohibitive and there is a limit also to amounts sent by money order.

The chief credit instruments in vogue in the country are cheques, bills of exchange and promissory notes payable on demand. It is through the agency of promissory notes that a vast majority of the loan operations of individuals, bankers and other financial corporations are carried on. The stamps payable on these sorts of credit instrument do not exceed four annas. Formerly one anna postal revenue stamp only was required to be affixed to any amount but the amendment of the Stamps Act increased the duties on these instruments up to four annas for amounts exceeding Rs. 1,000. Pro-notes are generally not registered but in some cases they are even registered though not legally required to be registered. The use of cheques and bills of exchange is generally restricted to such big cities as Negapatam, Tanjore, Kumbakonam and Shiyali where trade and commerce prevail. The restricted use of bills of exchange is not due to the stamp

duty payable on it which is sufficiently low but owing to absence of banking facilities in the country.

In U.S.A., a bill to help the farmers called "The Farm Relief Bill" has been said to be passed. "The Farm Relief Bill of U.S.A. provides a revolving fund of half a billion dollars nearly a fourth of which has already been appropriated and made available. It will be used for loans to co-operatives, to finance the purchase and storage of surplus farm products, and their later sale. It will, the Government hopes, stabilize agricultural products and prevent seasonal gluts."

The farm relief programme starts with the conclusion that the farmer needs an elastic credit system for marketing his crops to advantage. Abundance of credit is the main stimulus to business, and the backbone of commerce. Farmers want more credit for agriculture both in farming and marketing. This is the American idea.

How far this programme will suit Indian conditions is a highly controversial problem. It is an evident fact that the income of the average Indian is not very high and any increase in his cost of living will pinch him and his family very severely indeed. Cheap food is his necessity. The rice, wheat and cereals grown in this country find a market here and though the surplus is exported elsewhere it is better to leave the export trade in food articles in others' hands. The only case for such provision and extension of credit is for such non-food articles as groundnut, cotton and jute and such luxuries as tea and coffee.

3. One acre of dry land in South Tanjore capable of producing from 15 to 30 kalams of groundnut will be worth from Rs. 250 to Rs. 350. Kambu, ragi, jowar and other grains also can be grown in that land besides gingelly as a second crop. On the other hand in the northern and eastern parts of Tanjore district one acre of single crop wet land capable of producing from 15 to 38 kalams of paddy is worth from Rs. 500 to Rs. 800 according to local conditions and supply and demand while such an acre of double crop wet land may be worth from one and a half times to twice the value according to the same conditions.

The chief deciding factors which determine the price of such lands are (1) demand, (2) available saleable land, (3) the need for money for various purposes on the part of landowners, (4) the usual yield of the land, (5) the possibility of good supply of water and drainage, etc. The above factors may hold good in respect of lands in the deltaic portion while as regards the price of dry land in non-deltaic portions the monsoon combined with the above factors is a deciding factor. A succession of favourable monsoons tends to increase the price while such periods of unfavourable monsoon bring down prices.

Revenue sales held for default in payment of kist or rent to the landlord are generally knocked down for very small amounts,—at least in dry parts it is markedly so,—while court sales fetch better prices and both are in their nature speculative and only land speculators have recourse to buying of land through such means. Fair price is only obtainable in sales through private negotiation and non-speculative people have recourse only to such sales. An acre of dry land is even sold to Rs. 5 or 6 or 10 whereas if it is sold by private negotiation it is possible to realise more. Indeed there seems to be a class of land speculators who obtain lands in revenue sales at fabulously low prices and sell them by private negotiation to three or four times its original purchase value and even more.

4. The Limitation Act of 1908 provides in respect of land mortgages a period of 12 years from the date when the money sued for becomes due as the period of limitation. Assuming that the period of repayment stipulated in the mortgage deed is ten years the period of limitation is 22 years after date of execution assuming that no payment for interest or principal is meanwhile paid and endorsed on the mortgage deed by the mortgagor. Thus there is ample scope under the present law to allow credit for long periods without risk to either party.

It may be said without hesitation that at present there are no banks worth the name which afford relief to the agriculturist by way of granting credit for such long periods as from 10 to 20 years in this district. Co-operative societies and nidhis grant credit only for short periods. Especially in the case of nidhis the penal interest levied for default from the irregular member greatly handicaps the mortgagor. The creation of a land mortgage bank allowing credit for long periods is, considered from all points of view, therefore a necessity.

If any land mortgage bank is to be formed it must be registered under the Co-operative Societies Act and not under the Indian Companies Act. One central land mortgage bank should be constituted for the Province. The co-operative district and urban banks should be allowed to take shares in such land mortgage banks. The capital of the bank should be mobilized by the issue of preferential debenture bonds carrying interest from 6 to 7 per cent besides the issue of ordinary shares. The apex bank in the Provincial centre should establish branches in district centres and all should pursue a co-ordinated programme or policy with such changes in detail as suit local conditions. The Imperial Bank may come to the aid of the small investor and may advance money to him for investment in the shares of the bank and charge him bank interest with proper guarantees of course.

As the primary object of establishment of such banks is to relieve the needy and heavily indebted agriculturist a liberal policy of extension of credit should be pursued with proper guarantees. Let us take a concrete instance. If all conditions as to value of security, repayment capacity, regularity on the part of constituents, etc., are satisfied ten acres of wet land valued at from Rs. 2,000 to Rs. 3,000 may on the security of first mortgage by the owner be advanced from Rs. 500 to Rs. 1,000 to be returned, say, within 15 or 20 years at 9 or 10 per cent interest per annum. Thus for a loan of Rs. 1,000 at 10 per cent interest for 20 years one will have to repay for principal Rs. 50 every year and interest of Rs. 100 for the first year and interest of 95 rupees in the second and so on in a descending scale. All repayment should first be credited towards interest and afterwards for principal. On any account the whole interest should be paid within the year. Ten acres of double crop wet land are capable of raising 300 to 400 kalamas of paddy in deltaic area and the cultivator may after providing for expenses of cultivation, food, dress, payment of kist and other expenses for the family realize a surplus of from 100 to 150 kalamas which may be sold and paid to the bank to which he is indebted.

(a) Title deeds may be regarded to include patta, sale deeds and other documents evidencing ownership. As far as possible the issue of joint pattas should be restricted. A limit may if possible be made to the subdivision of holdings. The possibility of making minute fragmentation of holdings should be made impossible by provision of proper enactments. Upon an application for loan by a constituent member of the bank in addition to the examination of title deeds evidence as regards present possession should be taken. Notice of the fact of application and as to objection if any for the grant of loan should be published in the District Gazette, the bank premises and in the village or villages where property is situated and the claims of objectors should be examined say within 3 months (three months) from date of application. If no objection is raised within three or six months or within a reasonable period to be fixed, later objections should not be allowed to prevail legally and the bank should thus be secured from future legal action by possible claimants and ostensible owners.

(b) Provided a duly executed and registered mortgage deed has been obtained by the bank, the bank may, after the lapse of three months after issue of registered notice to the defaulters, be legally empowered to start execution proceedings as if the mortgage was decreed by a civil court. The law should be so amended.

(c) Expenses necessarily incurred on account of proceedings against defaulting debtors may be charged upon the property of defaulters and the regular members may if possible after complete repayment of loan be allowed a rebate in interest from $\frac{1}{2}$ to 1 per cent at the discretion of the management. I propose the latter arrangement in order to encourage the habit

of regularity of payment on the part of constituent members who get the benefit of loans.

Just as for co-operative societies the Government may extend the benefit of exemption of stamp and registration fees to the constituents of the land mortgage bank also provided the Government completely and thoroughly thrash out the financial implication of such undertakings and provided such a thing can be allowed from the point of view of general revenue.

The provincial central land mortgage bank either with or without the guarantee of Government should raise capital by the issue of debenture bonds carrying interest from 6 to 7 per cent and by the issue of ordinary shares. The capital so raised should be lent at from 9 to 10 per cent. In the allotment of shares the provincial co-operative central urban bank at Madras and the urban co-operative banks at district centres should be given first preference and others only in the usual course. Granting that all such capital is lent out there will be profit of 2 to 3 per cent. Even if all such capital is not lent out the balance of available capital can be invested in Government or other gilt-edged securities and thus there will be no appreciable loss and such loss as may result may after all affect the dividend payable to the holders of ordinary shares. The abovementioned margin of profit of from 2 to 3 per cent can be employed to meet the expenses of management, provision for reserve, building, depreciation of dead stock, bad debts and other unforeseen losses.

5. In order to increase the banking facilities to the agriculturist it is very necessary to assess the correct agricultural indebtedness of the people in the Province. This is indeed a very difficult problem. Any estimate can be merely approximate. This problem of the correct assessment of the agricultural indebtedness involves the collection of statistics from very many sources. The interest even for registered mortgages ranges from 10 to 24 per cent and in very many cases owing to heavy interest charges the mortgagor has eventually to part with his land. One notable feature in dry parts in Tanjore district is the large number of rent and revenue sales made by Government for failure to pay revenue to Government and rent to the landlord by ryots. These are of course unhealthy features and if things are allowed to drift and take their own course there will indeed be no further inducement for the agriculturist to work hard on his land with a view to produce better yield.

6. In this district (Tanjore) there are a number of rice mills established in various places. Some are working and some are in a defunct state. Among the latter class are many of the big rice mills. Small mills on the other hand are not as a class in such a helpless state. Many of these are working with profit and they deserve financial relief. With the stoppage of free and unrestricted export of husked rice to Ceylon from about 1918 following the food riots many of the big rice mill owners seem to have fallen on evil days.

There are no dairy farms in this (Tanjore) district conducted on any scale, large or small, but rearing cows and buffaloes for milk and ghee is more a home and cottage industry. The efforts of the people in this direction are only spasmodic and there is scope for breaking new ground and expansion in this direction.

Manufacture of jaggery from cane juice is here and there carried on in Mayavaram taluk and in stray parts in other portions of the district. There is no sugar refinery in the district. But in Nellikuppam (South Arcot district) Messrs. Parry & Co. carry on the industry of refining canesugar on a large scale. This is a factory industry in South Arcot district. They also seem to collect palm sugar from Palghat and other western parts in order to convert it into white sugar at Nellikuppam.

6-A. Handloom industry is carried on as a cottage industry in very many parts of the district such as Kornad, Ayyampet, Manambuchavadi, Mannargudi and other places. These are all from imported yarn only. Dyeing yarn in black is also carried on at Anthanapettai near Negapattam and elsewhere. Brasswares are made in large quantities at Kumbakonam and

exported to distant places in the Presidency. All these deserve encouragement.

Spinning and weaving is the only supplementary industry which can help the small agriculturist in the off season when he has no work on his land and has to keep idle. This will supplement his earnings and help to keep the wolf (of hunger) from his door. As for spinning the agriculturist should be supplied with cheap cotton by importing it from places where it is grown. Gradually cotton can be grown locally to supply local wants. Spinning and weaving should go hand in hand and there should be an awakening of the dormant conscience on the part of rural people.

Fishing as an organized industry is only carried on in the sea-coast where there are salt-pans. It is not carried on in the inland parts and water-courses because of there being no facilities for it.

7. It is an evident fact that co-operative central banks carry on their operations not merely with their capital but with fixed deposits for one or two years and with loans from joint stock banks on short credit and so they are handicapped in their business of providing long term credit since they have to keep a portion of their assets in liquid condition to meet the calls from customer banks.

In order that the co-operative movement may thrive and confer benefit on the agriculturists it is but meet that they should be exempted from payment of income-tax till such time as they are able to stand on their own legs. The preferential debenture bonds of the provincial co-operative central banks may be included as securities which life and other assurance companies may legally buy and invest. This will really constitute a great boon to the co-operative movement and consequently to the agriculturists and others within its orbit.

II.—Indigenous banking.

Native banking is carried on by *nidhis*, *Nattukottai Chetti* banks and rural bankers who are agriculturists and big landowners. The *nidhis* carry on business with borrowed share capital. They borrow from those who have no need for money and lend to those who have need for it. The *Chetti* banks obtain capital from other *Chetti* banks and joint stock banks and do business with traders and landholders. Mostly they lend on the security of land and joint *pro-notes*. The *Chetti* banks finance small industrialists and petty traders also on the basis of land security. The rural bankers obtain capital for their business generally not from any outside agency but from the sale of their surplus produce. These lend on the security of registered mortgages and *pro-notes*. The interest charged by *nidhis* is generally 6½ per cent and that charged by other agencies ranges from 9 to 24 per cent and even more according to the nature of security offered, risk involved, the need for money on the part of the borrower, etc. Some of the transactions carried on by certain *Chetti* banks have been speculative in nature and some have in recent years found themselves in deep waters and collapsed. Of all these private agencies the greatest good accruing to the general public is derived from *nidhis* and certain private bankers who actuated by philanthropic motives and a desire from a moderate interest lend on the security of lands and other immovable properties. The aid of these agencies may be sought and utilised for the good of the people. Other agencies deserve no extraneous help and they may be left to shift for themselves.

There has not been any hostile feeling as such towards usurers and other usurious *Chetti* bankers but they are regarded with indifference and disgust by rightminded people. As a last resource only one goes to a *Chetti* for accommodation and the latter himself knows it and uses the opportunity and exploits the need of his victim. These native bankers pursue their business under the present law and they get all the support necessary for them. Whatever advantages may be legally offered to them it is highly doubtful whether they will use those advantages to the benefit of the needy agriculturists. Any attempt to give publicity to their method and co-ordinate their activities may be viewed by themselves with suspicion.

Native Chetti bankers have dealings in various parts of the country and they have also got agencies in Burma, Penang, Saigon, Singapore, Siam and generally in all parts of the far east. Many of their transactions partake of the nature of speculation and it is very difficult to know actually what will be the net income after providing for all expenditure items. The Chetti firms themselves, I fear, will not be in a position to give the figures.

• III.—Investment habit and attraction of capital.

1. The chief investment facilities for the genuine investor who wants security and moderate gain by way of interest are provided by the Post Office savings bank, postal cash certificates, Government loans, war bonds and bonds issued by the Mysore Government. The watchful investor can also invest his money in the shares of banks, industrial and plantation companies as well as shares of the imperial Bank of India. The best security is afforded by investment in post office cash certificates and the securities of the Government of India. People in big cities have got many reliable banking institutions for investment of their cash but country people have got only the nearest post office doing savings banks business for investing their cash. Most of the branch post offices are not even carrying on savings bank business. Rural people should be advised to invest their cash in the nearest post office doing savings bank business.

The jewellery habit in India.—Such a reliable authority as Sir George Schuster, the Financial Member of the Government of India, cites figures to show that the imports of gold and silver during the ten years ended March 31, 1929, amounted to 38 crores per annum. This sort of investment of savings is really one of unproductive kind. If this huge sum was invested in Government loans or in the shares of such reliable banking institutions as the Imperial Bank the return will be very great and will be a blessing to the investor and the general public by lessening interest.

The Indian woman sticks to her gold and silver jewels because of her sentimental attachment to jewels, ignorance and illiteracy, want of adequate banking facilities and last, but not least, because her jewels in times of difficulty and stress provide a sort of famine insurance. Besides, the Indian husband will rather supply his wife with jewels than money in tangible form for investment on her account. The Indian social life subordinates woman to man and the ideal Indian wife has no separate existence apart from her husband. "Hindu culture has erred on the side of excessive subordination of the wife to the husband, and has insisted on the complete merging of the wife in the husband." In such a state of society the woman induced by vanity, tradition, surroundings, illiteracy and innate love of jewels for adorning her person, makes or has jewels made for her to be worn and used by her when occasion arises. The jewels on her person are her only personal property. It is an aspect with which one can rather sympathise than view completely with disfavour. The true remedy lies in education of Indian women and creation of a new angle of vision on the part of the Indian husbands to encourage their women to save and invest on their own account.

2. Post office cash certificates are bought generally by urban residents and educated people. There seems to be no evidence of an awakening or inclination on the part of rural people to invest in these genuine securities. The remedy lies in rural education and instilling confidence in the investing public. As it is more than 5 per cent interest compounded annually with principal is allowed on these cash certificates at present. Further increase of interest will certainly encourage investment in these securities. If possible interest may be allowed even for six months for cash certificates when they are cashed just after six months from date of issue. Now cash certificates cashed within one year from date of issue are only paid at their face value and no interest is allowed.

The postal savings bank provides all sorts of facilities to the investing public. Even Government loan bonds can be bought through it. Urban people more than others invest in savings banks. Rural people invest their money either in the purchase of land or in lending locally at high rates of interest or keep their money under lock and key.

Government bonds may be bought and sold through the savings bank department of the post office without commission or brokerage of any kind. The Imperial Bank and joint stock banks buy and sell these for their constituents.

Small investors and agriculturists have already got facilities to buy cash certificates of small denomination such as for Rs. 7-12-0, Rs. 15-8-0 and so on. As for big amounts they can be invested in Government securities through post office savings bank for which no commission is charged by Government.

3. The Imperial Bank and joint stock banks buy and sell for their constituents only all sorts of stocks and shares including Government securities in return for commission. Those who are not customers of such banks can buy and sell all stocks and shares of different kinds through such recognized brokers as Huson Todd & Co. and Croft Forbes & Co., Madras. These brokers charge brokerage or commission for the sale or purchase of such shares.

Those landowners who have surplus produce sell it and invest the money either in the purchase of land or lend it on registered mortgages. Some spend it on litigation and thus capital flows from country parts to urban parts. Merchants and traders invest in banks and nidhis. Agriculturists seek the help of nidhis for accommodation and get the loan on land or jewel security. Government servants and other wage-earners invest in co-operative societies and nidhis besides the post office. Farmers advance loans to their brethren on the security of land or pro-note at a rate ranging from 6 to 18 per cent and in some cases even more.

4. Cheques are generally in use in big cities and towns where banks are established and functioning. The use of cheques is restricted to traders, bankers, industrialists and exporters and importers of goods. The use of cheques will automatically increase when there is an expansion of trade and commerce and more banks are established. There is no necessity to enforce the use of cheques.

Native bankers who are ignorant of English keep their accounting system in vernacular only and there need not be any hard and fast rule to keep the system of bank accounts in English or Tamil or other vernaculars. But it is generally better that the bank accounts are maintained in such language or languages as the managing directors and proprietors of such banks are thoroughly conversant in.

5. I cannot say definitely whether investment and banking are done in the normal course. There is much room for expansion in either direction. It is very often said "Indian capital is shy". Though it cannot be considered wholly true at the present time still there is much scope to attract the capital from rural and other sources where there seems to be hoarding of cash and consequent loss of interest and possible general benefit. This is as much due to ignorance as to want of banking facilities. In this connexion I have to point out that there seems to be a misgiving on the part of the genuine investor to invest his cash in the rural unlimited co-operative credit societies whereas the case of urban co-operative banks stands on a different footing altogether. The directors and members of the latter class of institutions are generally men of standing and education and confidence is instilled and capital is created. The condition of most of the rural co-operative banks is deplorable from the point of view of the welfare of the general public and the larger economic interest of the nation as a whole. The fact that most of the rural co-operative banks are registered on the basis of unlimited liability discourages wealthy people and others with stake to become constituents of such banks. The result is that undesirable people get in and mismanage things. The result is want of confidence in such banks on the part of the genuine investor.

If wide and consistent propaganda is made of the benefits of investment in Government loans, how they are employed in the development and purchase of railways and construction of irrigation projects and such other national concerns confidence and a desire for a moderate but sure return will be created in the investing public and I think there may be a satisfactory response. But the degree and its extent depend upon local conditions. Propaganda should generally be concentrated towards discouraging the idea

of hoarding as distinguished from saving including the investment in gold and silver jewels on the part of the wealthy. Many are ignorant of the fact that hoarding instead of increasing the capital actually retards it and now from the point of view of general interest it is an irreparable loss besides the loss suffered by the hoarders, by way of interest that may accrue.

General.—In conclusion I must state that the various financial agencies public, private and Government, should work together and pursue a common policy of credit expansion. Hoarding should be discouraged. Saving with a view to invest should be encouraged. The co-operative movement should be manned by proper people on the non-official side and especially where practicable in rural parts limited credit and non-credit societies should be started. Such societies should be allowed to function without the aid from central banks and they themselves should create capital. The aid of responsible and wealthy landowners should be sought and they should be made to control such societies. Especially in villages influence and wealth count for much. The rural societies should not look to central banks for provision of funds but must depend upon their honesty and habit of prompt re-payment. If the latter characteristics prevail, any amount of capital they will have for the very asking.

It was a very regrettable thing that the reserve bank bill introduced by the previous Finance Member, Sir Basil Blackett, could not be passed. But the matter will certainly be raised again within a few years. The establishment of such a bank will be a great boon to other banks and the country. Such a bank was expected to function as a banker's bank and to regulate the system of control of credit and currency. With the establishment of such a bank as the Reserve Bank of India, India will enter on a new phase. The bank will get the right of note issue and the gold standard reserve now maintained at London will be transferred to the Reserve Bank and the bank will provide currency automatically by expansion or contraction of currency according to the requirements of the country. Every expansion of paper currency will ultimately rest on the condition of there being gold and silver specie in the reserve and subject to this condition all facilities by way of expansion of currency will be provided.

Written evidence of M.R.Ry. R. A. SIVANANDA MUDALIYAR
Avargal, President, South Arcot District Co-operative
Federation, South Arcot, Cuddalore.

1.—Agricultural credit and credit facilities for small industries.

Before beginning to discuss about agricultural credit and credit facilities for small industries, we should bear in mind the different classes of agriculturists that now exist in my district and those around it. The main divisions are :—

(1) Labourers who own no lands of their own, till lands for daily wages and sometimes are paid for their labour a share in the produce of the land they cultivate.

(2) Petty landowners owning a few acres of lands not exceeding 5, tilling their own lands with or without help of class 1.

(3) Kambatham or landlords owning lands more than what is needed for their daily subsistence ; a few of them cultivate their lands by hired labourers and also let their lands on varam rate or on fixed premium in cash or in kind.

(4) Absentee landlords who never attend to their lands and have them cultivated by lessees.

(5) Zamindars.

1. (a) Petty traders and local money-lenders consisting of Nattukottai Chetti banks (most of them now do not lend out moneys) sowcars, rich mirasdars having surplus funds in cash.

Petty traders, taking advantage of dire needs of cultivating ryots, advance small amounts to meet their pressing needs of the hour, such as cultivating expenses, etc., lend money on terms most unfavourable to ryots as to prices and rates of interest, i.e., ryots are made to enter into an agreement to sell their produce at a rate lower than the prevailing market rate and to pay interest at 12 per cent. Sometimes loans are raised by pledge of jewels or on personal credit at the rate of interest ranging from 12 to 37½ per cent. But in villages where co-operative societies exist only a few of the ryots not more than 10 to 20 in number on an average join as members and loans are applied for cultivation and other expenses but the loans are not applied for in advance so as to have them in time for meeting their expenses and the loans when granted do not go to meet the particular purpose for which they are raised, but they apply them for their expenses not necessary for cultivation or to improve their lands. The rate of interest charged is 9½ per cent. Short-term loans are granted for ten months or a year on personal security or on pledge of standing crops. Long-term loans are granted for six or seven years.

In a very few cases loans are advanced under the Land Improvement Loans Act and the Agriculturists Loans Act, but the Government servants, Tahsildars and others do not give much encouragement in this direction and only small amounts are allotted in the Annual Provincial Budget and so it does not go far enough to meet the wants of ryots. No advance is made by the Imperial Bank to agriculturists or to small industries. For expenses during cultivation at the rate of Rs. 40 per acre, 7 crores and 50 lakhs of rupees per annum are the total amount of capital to be employed for the said purpose. In a few cases of cultivators of rich class they do not require such loans. The necessary capital for loans to be advanced to others will only be six crores and fifty lakhs per annum.

(b) For capital and permanent improvements there is need only for well-sinking, water pumps and oil engines and reclamation of lands, but they are not going on apace with the demand on account of want of expert advice and finance. So the Government in the interest of both the Government and ryots should take a survey of all facilities for underground supply of water in the district and make an estimate of expenses for sinking wells and installing oil engines or pumps of other kind for all places where good supply of water is available for such purposes. The Government should

advertise the feasibility of reclamation of lands in these parts so surveyed and call for applications for grant of loans, etc. Without any such survey, no estimate is possible for expenses under this head.

For ordinary surface irrigation purposes, a similar survey of different level of lands or sources of irrigation by tanks or dams across existing rivers and channels is also to be made, plans are to be prepared and estimate to be kept ready so to draw the attention of the Government as to have the work executed in a particular order according to the capital available in every annual budget.

There exists no co-ordination between the several credit agencies. But there is enough scope for co-ordinating the activities of Government with the existing co-operative system on the improved lines.

(i) The present system of borrowing power should be abolished. The borrowing power of each individual in a village, should be fixed with reference to his property and his repaying capacity and loans granted and advanced are not to exceed the amount fixed for his credit.

(ii) Strict scrutiny is to be made in fixing such credit to be opened for each individual, great care being taken to particulars such as survey numbers, etc., of their lands and to the sources of income. A memorandum should be supplied and kept by each member to show his property qualification, borrowing, together with particulars of loans raised.

Every villager should be made a member and all his needs should be supplied by the society, so that he may not look to an outside agency for any help. In cultivating season seasonal credit must be opened and his bills must be met by cheques issued in his name to the bank.

(iii) There should be a paid responsible agency for executive work, under the control of the panchayatdars. He must be a full-timed officer entrusted with the work of disbursement and collection and must keep regular and accurate accounts. The pay of each of such agencies should be not less than Rs. 40 and he should have a thorough knowledge of agricultural and industrial products and the further developments of the place, encouragement being given to such agencies by promotion to higher appointment in Government or other services.

(iv) The capital of each society should be increased and the rate of interest reduced; in order to do this effectively we must do away with the white elephant, the district bank paying interest at the favourable rate for depositors and trying to get profits of its own by lending at a higher rate and there is a staff with unnecessary expenses. This is against the very principle of co-operation trying to do away with middlemen. In its place, different branches or out-agencies of the apex bank should be established in important and convenient centres around villages numbering from 30 to 40. The said branches should also be in custody of kist collections, deposits made by contractors, toddy-renters and others. The collection work of Government dues may also be entrusted to societies with necessary powers being given to the executive head of each society and a small contribution being made by Government for the same. These branches will also attract all kinds of depositors and the whole benefit will go only for the benefit of villagers without the profit being shared by any middleman.

Thus, so far as finance is concerned, each village will become self-contained. Time and expense employed in transmitting collections and loans can thus be easily avoided.

2. The ryots, borrowing money on pledge of produce or personal credit, are forced to sell at a low price to their lenders and to petty traders. They act as middlemen and deprive the cultivators of their profit to the extent of 10 to 25 per cent. If they are made either to sell their produce directly to the exporting firms or consumers, this profit of 10 to 25 per cent can be made easily available to the ryots. The pooling of agricultural produce for marketing is not at present in vogue. No serious effort is made by co-operative societies to market the produce of members. Every borrower from co-operative societies should be compelled to sell his produce through the society and the produce should be kept in the custody of the society till it is sold by the society as his agent. Each society must be authorized to advance loans on the pledge of member's produce the said loans not to exceed 50 per cent of its net value and the wholesale societies should be

located at convenient centres that have ports, etc. Decorticators should be installed in all convenient centres according to the demand adjacent almost to every village. Every transaction is to be conducted by the wholesale society on behalf of its members. No facilities are available for internal remittance and no negotiable instruments play any part in the internal trade of the province. Money is sometimes raised by merchants by pledging railway receipts.

3. The value of land per acre in this district is as follows :—

- (1) Dry lands fit for casuarina plantation is about Rs. 30 to 40.
- (2) Those fit for groundnut, ragi, kambu and other staple food irrigated by well or otherwise Rs. 300 to 1,000.
- (3) Garden lands Rs. 100 to 500.
- (4) Wet lands Rs. 600 to 1,000 and sometimes Rs. 2,000 to 3,000.

4. (c) The cost of reference to the record of rights and of registration of records and of the process at law should be made the first charge on the sale of the proceeds of the properties sold on account of defaulters and should not be met from the assets of the bank. The burden should not fall on the good constituents of the bank.

The working capital of the apex bank should be derived from all the three sources, preferably from deposits and debenture bonds. The Government should guarantee for a certain time (i.e.) in the infant stage both for the principal and interest so as to create confidence in the public. There should be a wholesale purchasing society to help the debtors whose debts are irredeemable. Constituents of such societies should be the depositors, the debtors and the Government. The object of the society should be to make the persons, who are not willing and who are not able to dispose of the lands to clear the debts, sell the land to the society by force. For the fixing of the price of the lands the discretion should be given to different official heads having interest in agriculture and the head of the department should do everything in consultation with the members of the association. The profit and loss should be struck by the owner of the land. The purchasing society should have some persons with some knowledge of agricultural engineering industry with short technical experiences and the society should conduct demonstration. The abovementioned method will, of course, better the condition of the farmer or the cultivator who will be able to pay off his debts in the long run from the net annual income he gets from the land.

6. The producer may get an increasing return in coir-making, mat-making, oil pressing, weaving, etc., being supplemental to agriculture and other primary industries. These subsidiary industries should be encouraged because there is the possibility of getting more income in subsidiary industries than what we get in agriculture. Coir-making, mat-making and weaving are essential to the farmers, who sit quiet during non-seasonal times and they will really raise the standard of living because the labourer gets more wages. Above all, this will prevent the migratory character of our labourer which is calculated to be a besetting sin.

**Written evidence of M.R.Ry. P. DURAISWAMI Avargal, B.A.,
Acting Manager, The Co-operative Central Bank, Ltd.,
Vellore.**

I.—Agricultural credit and credit facilities for small industries.

1. (a) The average agriculturist in villages is able to secure money for his cultivation expenses first by selling his produce. When that is insufficient or not possible, he obtains his finance from the leading ryots in the village. When such a course is avoided, he goes to the nearest indigenous banker and gets the required money either by the execution of a pro-note with another security or by pledging jewellery. Certain ryots attach themselves permanently to a particular leading ryot who finances them throughout the year and takes in return all the produce grown by them. In this district co-operative societies finance the ryots by means of short-term loans in order to meet their cultivation expenses to a large extent.

(b) It may be said roughly that there are three ways of obtaining money for permanent improvement of land—

(i) Loans from the Government under the Land Improvement Loans Act and the Agriculturists Loans Act.

(ii) Long-term loans from co-operative societies.

(iii) Indigenous bankers in the locality.

(c) During famine, the ryot looks up to the Government for loans and of course he sells away what all he has by way of jewellery and other valuables on such occasions in order to preserve himself.

The rates of interest charged by the indigenous bankers and sowcars vary from 7½ to 24 per cent. The merchant class is able to command only short-term finance from indigenous bankers. The ryots in villages are able to command long-term finance only to a limited extent from the big landholders in the locality who entertain a vague idea of buying the lands mortgaged to them in case the debtor defaults for a number of years. Ordinarily the short-term loans are given by private bankers on pro-notes with or without sureties according to the financial stability of the borrower. Long-term loans are secured by mortgages of immovable property invariably. There is a usual stipulation in case of mortgage loans that interest should be paid annually. In areas where groundnut is cultivated extensively petty merchants advance small sums to the ryots on condition that they will be given the produce soon after the harvest.

For the purpose of giving loans to the ryots the Government allots a certain amount per district and this is again distributed to every taluk for giving loans under the Land Improvement Loans Act and the Agriculturists Loans Act. When this allotment is exhausted there is no provision to meet the requirements of the ryots by the Government. The Imperial Bank is not made use of by the agriculturists and is at present made use of by the merchant class. The co-operative credit societies have been playing their useful part in helping to finance the agriculturists for the last one decade in this district.

It is not possible to estimate the capital required unless an extensive survey is made specially for the purpose.

The co-operative central banks at present are not able to finance village societies with long-term capital for which there is very great demand. The ryots are not so much in need of short-term money as they have for long-term money. The best remedy will be to secure for co-operative central banks long-term money.

At present there is no co-ordination among the various credit agencies. An earnest attempt in the direction would be of immense help to the ryots as well as to the credit agencies.

8. The value of dry land in this district varies from Rs. 100 to 400 per acre.

The value of wet land in this district is from Rs. 1,000 to Rs. 2,000 per acre ordinarily. The value may be a little less than Rs. 1,000 per acre where irrigation facilities are defective and tanks irrigating them are purely rain-fed and may even reach Rs. 3,000 where there are special irrigating facilities.

The main factors affecting the value of land are—

(1) The quality of the soil.

(2) Irrigation facilities—

(i) Whether the land is under any irrigation project.

(ii) Whether the tanks irrigating the lands are getting any supply of water through river channels, anicuts, dams, surplus water of tanks situated above.

(iii) Whether the tank is purely rainfed.

(iv) Whether the assessment of the land by the Government is high or moderate.

(v) Whether the wells dug in the locality have good spring.

(vi) The cost of labour in the particular area.

(a) Land is brought to Government auction for non-payment of kist as an extreme measure and this is generally resorted to only when there is famine and excessive failure of monsoon and as such value of land in Government auction for non-payment of revenue is very much lower than in the case of (b) and (c) and this value cannot be taken as the real value of land for all practical purposes.

(b) In this case the decree-holder who brings the property for court-auction is interested to raise the bid in auction at least up to the decree amount and as such the value of land is much higher than in the case of (a).

(c) In this case the value of land is still higher than in the former two cases. Here also two factors have to be taken into consideration, that is whether the owner of the land is pressed to sell away the land for meeting his demand, or whether the purchaser is bent upon acquiring the same. In the former case the value will be a little lower than in the latter.

4. There are a few land mortgage banks started in this district intended for the purpose of giving long-term credit but they are not functioning for want of capital. It is not possible to raise the required capital since the public are not coming forward to purchase debentures.

The proposed central mortgage bank may perhaps solve the difficulty of raising the capital.

I would suggest that all principal repayments to the mortgage debts should also be registered in the Sub-Registrar's office just like the original documents in order to avoid the fictitious endorsements of repayments on the document in order to save limitation.

Proposed central mortgage bank should not be made to depend upon deposits entirely to begin with. The Government should furnish it with required long-term money at the initial stage till the public infuses confidence in this bank by depositing their funds.

A guarantee from the Government both for principal and interest would go a long way to attract public deposits.

5. An accurate method for arriving at a correct estimate of the rural indebtedness will be only possible through the non-official co-operative agency. Wherever co-operative societies exist, a fair estimate may be made, by deputing a leading co-operator in a Union area with this work with the required paid staff. Statistics for mortgage credit may be collected from the Sub-Registrar's office, but there are vast transactions covered by means of pro-notes which cannot be accurately estimated except by enquiry.

There are cases where farmers have become tenants by the enforcement of old debts and eventually by the passing of their holdings to their creditors. The cultivating tenant is not interested to produce as much as he would when he owns the land himself.

(c) The debt was incurred for all the purposes noted in the questionnaire and much of this debt is due to professional money-lenders, next to co-operative societies.

The interest is calculated every year ranging from 7½ to 24 per cent. It is usually expected that the annual interest should be paid regularly and that the principal paid at the convenience of the labourer.

The system of part payment of principal is rarely used and abatement of interest is not much in practice.

7. The Imperial Bank of India allows an overdraft accommodation to the co-operative central banks on the collateral security of promissory notes of unlimited societies. The co-operative banks do not have any dealings with the joint stock banks generally.

The co-operative societies are in need of long-term finance. But the central bank is not able to provide them with the required long-term capital, since the apex bank is not disbursing long-term loans to the required extent.

It is not possible to give an accurate idea of the amount required for financing co-operative movement in this district but there is a good deal of demand for long-term loans. Ten lakhs of long-term money may be an approximate amount for financing the already existing societies during the current year. It has to be pointed out that there is ample scope for improvement.

No regular competition exists. There may be a little competition in receiving deposits since the joint-stock banks offer a high rate of interest on deposits.

Yes. In addition to the concessions suggested in the questionnaire the following concessions may also be granted to facilitate the growth of the movement: Exemption from the money order commission levied on the transmission of money by co-operative societies, exemption from professional taxes levied by municipalities empowering the present Co-operative Department for the execution of the decrees and awards given by the arbitrators, the removal of the restriction of 40 executions per taluk, the removal of the restriction of Rs. 150 for transmission through treasuries. Some of the above concessions have been recommended by the Townsend Committee on Co-operation.

Written evidence of Dr. SYED TAJUDDIN, M.L.C., Tanjore.

I.—Agricultural credit and credit facilities for small industries.

1. The agriculturist in this district almost generally borrows for preliminary cultivation expenses. Loans for this purpose are mostly for a period of one year and the rate of interest varies from 12 to 24 per cent. The rate in co-operative societies is generally 10 per cent. The financiers are money-lenders and co-operative societies. The latter are gradually extending their sphere of usefulness. These advances for cultivation are generally made on simple promissory notes with or without sureties. Co-operative societies alone in rare cases offer to advance money on the pledge of standing crops. No other financing agency is running in these parts to the best of my information.

The only agency that can most effectively finance agricultural operations during all these stages is the village co-operative society. The village society if properly worked can finance the agriculturist firstly for cultivation expenses, secondly for payment of kist and other incidental charges on the pledge of the standing crops and thirdly after the harvest by enabling him to hold up the produce for a favourable market on the pledge of the harvested crops. If every village could be made to have a co-operative society and if each society finances agricultural operations on the lines indicated above it might be possible to arrange for pooling together the harvested produce of all the agriculturist members in each society and of the produce of all such societies in a central organization, which might with facility and advantage to all concerned organize a system of co-operative marketing.

The co-operative societies give accommodation of two kinds generally (1) those termed short-term loans for one year for the purposes mentioned above and (2) for periods ranging from two to five years for other purposes such as payments of earlier debts, purchase of seed and manure, sinking of wells, purchase of lands, plough bulls, etc.

The joint stock banks in this district grant loans for periods ranging from 3 months to 45 months.

(a) Some of them like the Tanjore Permanent Fund grant loans for 45 months to a large extent on the mortgage of agricultural land and houses and to a lesser extent on the pledge of jewels. The mortgage loans are generally for clearing prior debts or for purchase of lands, construction of houses, etc., and the jewel loans to meet emergent expenses.

(b) The three months' loans granted by the other joint-stock banks on pro-notes supported by one or two sureties are generally availed of and are useful to the merchants.

(c) Almost all the joint stock banks lend money on the pledge of produce, which mainly benefit the merchant classes.

The Government have also advanced loans to agriculturists under the Agriculturists Loans Act and the Land Improvement Loans Act, but owing to a variety of circumstances they could not be said to have achieved the real object with which they were advanced.

4. I have briefly outlined the credit accommodation now available in the district. But the agriculturist is not able to make much headway with all the above advantages because of the load of prior debts which is gathering momentum on account of the increasing interest charges. To provide relief for this land mortgage banks on co-operative basis ought to be started all over the district, as early as practicable. It is desirable to have a large number of small banks of this type the area being restricted to not more than a taluk at the most.

The necessary working capital will have to be provided as loans by a central mortgage bank, which can more easily and with greater success float debentures and to a certain extent also secure deposits. In the earlier

stages the primary lending bank may not be able to secure much of deposits, but this it may be able to do as time goes on. The Government would of course have to purchase a portion of the debentures floated and also guarantee the interest thereon for some time.

6. Apart from helping the agriculturist with long and short-term credit, it is also necessary to concert measures to enable him to increase his earning capacity. A large number of agriculturists particularly in the upland tracts have got spare time, which they can employ on some useful and remunerative enterprise or industry. To help them in this direction a number of labour organizations might be formed to undertake and execute road-making, excavation and other works from the local bodies and the Public Works Department. A large number of indigenous cottage industries might also with advantage be encouraged. In centres like Adirampatnam hand-spinning and coir-making might, with advantage, be financed. To begin with, the local credit societies might render the necessary financial help and separate organizations preferably on a co-operative basis might subsequently be formed.

7. Each of the various credit agencies is functioning in its own sphere and there is not much possibility of a conflict, though I am of the view that the co-operative movement if developed on right lines is sure to be of much greater benefits imbued as it is by certain aims and ideals rather than for the purpose of merely providing cheap and facile credit.

III.—Investment habit and attraction of capital.

Besides this, it is absolutely necessary that habits of thrift should be developed and agriculturists induced to invest their savings. The existing co-operative organizations have not apparently achieved much in that direction. The local nidhi is used as a concern for saving mostly by the population in the town and it is resorted to by the agriculturists, more often for purposes of loans than for investments. Making of jewels in silver and gold is the usual form in which the savings of the poorer classes are invested. A greater insistence on the part of co-operative organizations on the importance of thrift would certainly be greatly useful, such as starting of chit funds, provision in the by-laws of societies for compulsory recurring deposits and things of that kind. The post office cash certificate is very useful as a form of investment for the poorer classes and some more propaganda might also be undertaken to popularize the same. The certificates might if possible be made transferable by endorsement.

**Written evidence of M.R.Ry. V. SARANATHACHARI Avargal,
B.A., B.L., Mettu Street, Tiruturaipundi, Tanjore District.**

1.—Agricultural credit and credit facilities for small industries.

1. In describing the system obtaining in any district in this Presidency by which agriculturists obtain finance for expenses during cultivation, for capital and permanent improvements and for other special needs, one cannot fail to take note of their economic condition. About 90 per cent of them are suffering from a heavy load of indebtedness which has the result of the working of various factors. The most prominent of them are: (i) the heavy assessment of land-tax and levy in money and not in kind; (ii) the absence of saving habit among the farmers (a) owing to their extravagant habit of drinking and leading a life of luxury and indolence, (b) owing to the poor return they get from their holdings, which are very small, uncontiguous and mostly uneconomic, which have lost all their natural resources and for which improved methods of cultivation are not being applied owing to their reserved habits, (c) the growth of food-crops alone instead of both food and commercial crops, (d) want of supplementary occupation to add to their income, (e) the existence of middlemen for the sale of their produce and for the purchase of their provisions; and (iii) the incurring of unproductive debts for purchase of land at an uneconomic rate of interest, for family debts beyond their means of repayment, for marriage and other ceremonial occasions owing to the fear of going against traditional social customs and conventions and debts for litigation, etc.

Though some distinction has been made between long and short term credit in the two Acts made by the Government of India in granting loans to agriculturists, neither the money-lender nor the co-operative societies as they have been worked so far till very recently have made any distinction between capital necessary to finance agricultural operations and those required for household consumption, etc. The borrower has not been able to distinguish between sums borrowed for productive purposes from the expenditure of which he expects to make a saving and add to his wealth and those taken for current needs which every prudent man would meet from out of the next harvest itself. Hence a major portion of the loans incurred by the agriculturists are utilised towards the discharge of prior debts and only a small negligible portion is available for other expenses for cultivation or for permanent improvements.

The agencies that supply the finance required by the agriculturist for his various needs can be classified under the following heads:—

- (1) the State;
- (2) the money-lender;
- (3) the village trader and dealer;
- (4) private banks and bankers;
- (5) the joint-stock banks and the Imperial Banks; and
- (6) co-operative banks.

The State has recognized the serious nature of the problem of indebtedness and has definitely accepted its obligation to advance loans to agriculturists in difficulty at cheap rates of interest as evidenced from the Land Improvement Loans Act of 1883 and the Agriculturists Loans Act of 1884. The object of the first Act is to advance loans for land improvements for comparatively long periods, while that of the latter is to grant loans for the purchase of agricultural requirements like the seed, cattle and manure. The complaint against the working of the two Acts is that there is a very inordinate delay in dealing with applications that the borrowers do not get the benefit of the full sum sanctioned to them and that there is a very rigid system of recovery. The Revenue Department keeps the accounts and the subordinate staff disburses and collects.

the amount along with the kist. Only an insignificant portion of well-to-do ryots benefit by these loans. Some of the cultivators are not aware of the opportunities offered by these Acts. The means by which improvements in land can be made by availing loans obtained under the Land Improvement Loans Act should be brought home to the cultivators by means of a special agency. As there is no educative influence behind these loans the allotments made under this Act should be placed at the disposal of co-operative land mortgage banks specially started for the specific purpose of dispensing long-term credit. The Agriculturists Loans Act should not be expected to be the means for meeting all the normal requirements of the agriculturists but should be brought into operation in times of exceptional calamity and distress like failure of monsoon, famine, etc. It is being gradually replaced by the co-operative credit system.

The money-lenders' credit is ruinous to the borrower. It is a common practice for agriculturists to keep their entire accounts with them which are often secret. They start with a debt and always remain debtors. Since the entire produce is handed over to them after harvest, the ryots get a very low price. The money-lenders are very often anxious to get control over the borrower's property and power over him by taking advantage of his need to borrow. The chances of fraud are great and they charge a very heavy rate of interest.

Merchants and dealers in villages hold a prominent influence among the agriculturists. As the dealer purchases his requirements on credit he has to charge a high price for his articles and the agriculturists get inferior quality and that too not in full quantity. They are always under the dictation of the dealer, and the merchant and the dealer are very often combined in one and the same person. The merchant usually enters, long before the time of harvest, into an agreement with the agriculturists to sell all the latter's produce for a price prevailing soon after harvest or at a rate fixed at the time of the contract itself. The amount the agriculturist gets is nominal and he is very often deceived in the matter of ruling prices and measure.

The private bankers provide funds on securities not acceptable to the Imperial Bank or joint-stock banks. They do a real service to internal trade of the country. Small shop-keepers get their goods from a merchant outside on credit. The latter draws a hundi at three or six months. The merchant discounts it with a Chettiyar, who, if he is in want of funds, re-discounts it with the Imperial Bank or joint-stock banks. At the time of harvest the agriculturist obtains a hand-loan from the Chettiyar. After the harvest paddy is sold to a broker merchant who arranges for an advance with the Imperial Bank or joint-stock bank, with which the agriculturist is paid who in turn pays the Chettiyar. If the goods are exported outside the country the bill is sold to an exchange bank and the proceeds are utilised in repaying the advance from the Imperial or joint-stock banks. Thus they finance the internal trade and serve as a means of distributing the surplus funds of the Imperial Bank or joint-stock banks to the retail dealer and petty agriculturists. Experience has shown that these private banks and bankers in the mufassal usually degenerate into usurious money-lenders who due to the heavy indebtedness of the countryside are very difficult to control.

Joint-stock banks usually advance loans to larger landholders and planting community and those who possess tangible marketable security. They regularly advance loans on the security of produce in godowns. The Imperial Bank of India through its branches gives loans to well-known traders and merchants on the security of the produce lodged in their godowns. It has also given cash credit accommodation to the Madras Central Urban Bank and to co-operative central banks on the security of promissory notes executed by primary societies lodged with them and such loans are freely given in the case of co-operative societies with crop loans.

The banking habit has not spread into villages to any appreciable extent. The existing commercial banks like the joint-stock banks and the Imperial Bank of India deal with short-term transactions which are often in large sums. They provide banking facilities only in important mufassal centres of commerce and industry and not in all urban and rural parts.

Even if they open branches they cannot successfully develop the areas covered by co-operative banks as the expenses must be prohibitive compared with the business they may be able to get. Though they are indispensable for trade and commerce the agricultural land in India is unsuitable as a security for such bank credit as the holdings are small, cultivators are illiterate and their habit in the matter of punctual discharge of obligation is not very well cultivated. Further they cannot afford to lock up their capital in small loans repayable at the convenience of the borrower and not repayable at a short notice. Further agriculturists in rural parts are not sufficiently known outside as the trader or merchant in a town to these banks.

The credit given by other organizations like companies trading in fertilizers is unsuited to the agriculturist for it is only for a very short period not usually exceeding a month.

Hence all the above sources are unsuited to the agriculturists and a separate banking system is needed to handle agricultural credit. The one type of institution which can safely operate in such a field is one which attracts the sympathy and serves the interest of the borrower. The salvation of the agriculturist lies in "an institution which will lend only for useful objects, which will accept and insist on regular payments by instalments and can subject him to the pressure of a neighbour who has a common interest in keeping him up to his duties". The co-operative system offers an institution of this type. Its ultimate aim is not only "to free the borrower from a specific burden but also to place him in a new economic position with a new standard of economic behaviour for the future".

The rate of interest charged by agricultural primary co-operative societies varies from 9-6-0 per cent to 10-15-0 per cent; the nature of the security for such co-operative banks is either personal surety or mortgage of landed property. In a few cases loans are given on the pledge of harvested produce. The rate of interest charged by money-lenders varies from 12 to 24 per cent and that by private bankers is usually not less than 18 per cent. Joint-stock banks charge 6 per cent for ordinary loans, and 9 per cent for special loans but when there is default in the payment of any single instalment the rate of interest works up to 12 to 15 per cent. The Imperial Bank rate is usually a fixed flat rate of 6½ per cent. The period of loans of co-operative societies ranges from six months to ten years. Joint-stock banks lend on the security of crops and on valuable jewels and in a few cases on mortgage of land. Private bankers and money-lenders lend on securities not acceptable to joint-stock banks or the Imperial Bank and they are for indefinite periods. The Imperial Bank of India lends only on the security of produce secured in godowns for rich approved customers. It does not usually lend on mortgage of lands as its funds cannot afford to be locked up in a number of small loans payable in instalments at the convenience of the borrowers. Joint-stock banks' and Imperial Bank's loans usually do not exceed three or six months at the utmost.

In the working of the co-operative bank the one prominent feature nowadays is the growth of heavy overdues owing to illiterate and indifferent panchayatdars and inefficient supervising bodies. There should be thorough overhauling and the work of rectification and consolidation already begun should not be allowed to slacken owing to differences of views between the various agencies, the central banks, the federations and the department. As the price for which the crops are sold is very small owing to the intervention of a number of middlemen, and as the ryots also suffer from heavy prices for their agricultural needs and household requisites, loan and sale societies should be started in large numbers with godowns in almost every important village and the joint indent system should be freely indulged in by co-operative banks in the purchase of the needs of agriculturists. Further practical education by well-informed persons should be given to all the panchayatdars and members of primary societies on the lines conducted by the provincial co-operative union at Madras during September and October 1929.

As the central banks which finance agricultural primary co-operative banks get their funds from short-term deposits, the loans given by primary co-operative societies should be confined to a period of five years for

loans for current cultivation expenses and other intermediate loans and all other loans including loans for capital improvements should be handled only by co-operative land mortgage banks raising their capital not by deposits but by debentures aided by a central land mortgage bank.

There are very few land mortgage banks working. They suffer from want of sufficient working capital as their debentures do not find a ready market. If a central land mortgage bank issues debentures it can command a ready sale and there will be no competition between different primary land mortgage banks. Further the period for which loans are advanced should be 60 years and not 20 as at present. The borrowing power should be 20 times its paid-up share and reserve fund and not 9 as it exists now. The amount that a member can borrow should be at least Rs. 5,000 and not 2,000 as it is now and the rate of interest should be 6 or 7 per cent and not 9. The central land mortgage bank need not be started by the Government with officials as the executive but should be left to private management, the Government carefully watching its activities.

The Imperial Bank of India should not terminate at its sweet will and pleasure the cash credit accommodation allowed by it to the co-operative central banks and the Madras Central Urban Bank but the facilities enjoyed at present should be on a footing of central guarantee and the agricultural bonds of primary societies should be freely re-discounted by them in times of necessity for more short-term credit.

In the case of payment of land revenue a few typical co-operative societies may try the system of paying Government kist on the security of harvested paddy lodged with them.

In estimating the expenses during cultivation we have to take into account in some cases the labour of the cultivator and his family.

The cost of hired help is usually met from the paddy reserved out of the previous harvest or out of the harvest itself. Seed is kept over from the previous crop and cattle are fed on the produce of the holding or on what they can gather for themselves as fodder. The purchase of cattle, manure, new varieties of seed in some cases and the payment of kist are the largest items of cash required by the cultivator.

Below is given the rate of expenses for cultivation of 17½ mahs of wet land or 5·80 acres roughly with one ordinary native plough, with a pair of bulls costing Rs. 50. Fifteen mahs of land or 5 acres of ordinary land will require 2½ mahs of land or ¾ acre of seed-bed land.

	Expense in kind.	In cash.
	R. M.	Rs. A. P.
Manuring seed bed	2 0	6 0 0
Ploughing seed bed at 1 man for 50 kulis—		
First ploughing	0 10	2 8 0
Second ploughing	0 10	2 8 0
Removing the mud with axe (<i>Chappu</i>)	0 10	2 8 0
Removing weeds—5 female coolies	0 5	1 4 0
Levelling mud behind the plough—1 male	0 2	0 8 0
Letting out water—1 male	0 2	0 8 0
Sowing the seed after it is completely immersed in water—3 males	0 6	1 8 0
Seeds at the rate of 18 marakals for 2 mahs, 7-8 kulis	8 6	21 4 0
Wastage for drying 1 kalam		
	14 3	38 8 0
Manuring land proper at the rate of 4 bandies per mah	10 0	30 0 0
Levelling manure—4 males	0 8	2 0 0

	Expense in kind.		In cash.	
	R.	M.	Rs.	A. P.
Ploughing at the rate of 1 male for 50 kulis—				
1st ploughing	50		15	0 0
2nd ploughing	50		15	0 0
Removing the mud with axe (Garasa)	50		15	0 0
Levelling with the plough (Goswasa), 1 male per mah	25		7	8 0
Levelling after ploughing (Goswasa) 1 male per mah	25		7	8 0
For removing nurseries (Garasa), 25 males for 2½ mahs	43		12	8 0
Transplantation, 5 females for 1 mah	63		18	12 0
Removing weeds, 2 females for 1 mah	20		7	8 0
	437		130	12 0
Ploughing seed bed land after removing nurseries, 1 male for 50 kulis or ½ mah—				
1st ploughing	0 10		2	8 0
2nd ploughing	0 10		2	8 0
Removing mud with axe (Garasa), 1 male for 1 mah	0 5		1	4 0
Third ploughing before transplantation, 1 male for 100 kulis or 1 mah	0 5		1	4 0
Transplantation, 5 females per mah	1 0		3	0 0
Removing weeds, 5 females for 2½ mahs	0 5		1	4 0
	3 11		11	18 0
Harvesting expenses—				
At the rate of 1 male for 20 kulis	20 7		44	0 0
For mannamat such as creating bunds for fields, clearing silt, etc	3 0		7	0 0
For channel digging (5 males)	0 10		2	8 0
For taluyari and waterman (Goswasa)	1 6		5	0 0
For supervision work for 4½ months at Rs 2½ per month	4 6		12	0 0
Extra expenses during Dipavali and San-karanti	2 9		7	8 0
	33 2		81	0 0
Kist at the rate of Rs 8 per acre on an average.	16 0		48	0 0
Total expenses	110 11		310	0 0
Deterioration of cattle			5	0 0
			315	0 0
Yield is at 8 kalamas per mah on an average ..	140 0		350	0 0
Straw at 70 bundles at 6 bundles for a rupee ..			11	12 0
			361	12 0
Net income	30 11		46	12 0

He will have a debt of Rs. 1,500 and the value of the land will be Rs. 4,320 on an average.

The above is the rate of expenses for cultivation where the owner of land employs labour for all kinds of operation. Where he is himself the cultivator, on account of his labour and that of his family, there will be a saving of at least Rs 160 or 50 kalamas of paddy. When artificial manure such as superphosphate, nitrate of soda, ammonium sulphate, etc., combined with natural manure is used the cost comes to Rs. 18 per acre.

The above figures show the slender return out of wet lands and if the position of the ryot is to be improved, a better return can be had only when there is less cost of cultivation, when better manures, better seeds, better ploughing and other modern methods of cultivation advocated by the Agricultural Department and a change in the crops in some cases are introduced. Then better prices can be secured only if the condition of the market prices and the demand for the same are made known to every farmer by means of regular services like those obtaining in America. Rural indebtedness can be satisfactorily wiped off only by giving more short-term loans for productive purposes and long-term loans made repayable within 30 years by the adoption of the self redemption system of payment or the amortization scheme. Further there should be an effective check on extravagant habits of spending beyond means on social and religious occasions. Further, economy must be practised in the matter of purchase of agricultural and household requirements. Subsidiary occupations such as spinning and weaving, iron-making, coir industry, vegetable-gardening, poultry-farming, etc., will alone give additional income to the ryots during the off-season. The savings secured in the above ways must be made available to the co-operative banks by the introduction of home-safe deposit system which is practically dead in all societies.

2. In the case of wet lands the principal crop raised is paddy. It is usually consumed and there is not much that is available as sale from small cultivators. The rich mirasdars and the needy cultivators requiring money at the time of payment of kist sell their paddy to a local commission agent or broker who usually obtains money from outside merchants who go over here after studying the demand for it elsewhere. It is a matter of common complaint that sufficient paddy is to be had as desired by the exporting merchants. An attempt is now being made to collect the paddy available in the godowns of loan and sale societies which are expected to command more bargaining power than the individual ryots.

In the case of dry lands cholam and plantains are consumed in the place of production or round about. Chillies are taken outside and sold there. In rare cases they are exported to different places internally. Coconut to a certain extent is consumed locally and to a certain extent the dried copra and coir got out of the coconut fibres are exported to foreign countries for soap manufacture, etc. A major portion of the groundnut is collected by brokers and commission agents of foreign exporting firms like Ralli Brothers, Volkart Brothers and are exported outside this country. Sometimes the small cultivators take them to the agency office branch and are paid for there. The firm's branch offices get money during the busy season from the local treasuries on advice from their agents at Bombay where they have accounts with the branch of the Imperial Bank of India which is the bank for transacting Government monetary transactions. In the case of paddy, gradation is not possible as the same kind is not produced throughout the district. It is not possible to form pools at this stage and what is practically possible is the collection of paddy by loan and sale societies by which greater prices can be secured for the ryots consequent on the greater bargaining power and expert selling. As for dry crops, co-operative agencies can collect them and make them available for the exporting foreign firms. We can only avoid a number of middlemen who eat away what is legally due to the small producers and the chances of forming pools are very few now.

Private bankers get additional capital from the Imperial Bank and the joint-stock banks to finance agriculturists and petty traders. Bigger traders and merchants get advance direct from the joint-stock and Imperial Banks on the security of produce lodged with them. The agriculturists are given handloans by Chettivars or private bankers on the execution of pro-notes for current cultivation expenses. Thus the private bankers act as agents of the Imperial Bank and the joint-stock banks in enabling the utilisation of their surplus funds to the retail dealers and agriculturists. In the case of foreign exports, the bills are sold to exchange banks and money realised therefrom is utilised in further production.

For internal trade the form of document drawn by the merchant from the Presidency or other important towns is the hundi which is usually

drawn at a usance of 30 to 90 days. The difference between the hundi and the bill of exchange is that the name of the drawee is not written across the hundi but particulars are entered in the drawee's books. They are discounted with private bankers who, if they are in want of funds, re-discount them with the Imperial Bank or joint-stock banks. They are not presented for acceptance before they are presented for payment, i.e., before they are due or overdue. In the case of foreign trade, the document drawn is usually the bill of exchange drawn on the importer abroad for periods of six months or more, which has to be presented for acceptance. The bill to which the shipping documents go as cover is sold to an exchange bank who re-discount them with the banks in London if they are in want of funds there.

Certain facilities have been given to co-operative societies in the case of internal remittance from one place to another. They can use Government remittance transfer receipts at par but other bankers have to pay a small commission in this respect. They are issued from one sub-treasury to another sub-treasury in the same district. If money has to be sent to another district, it is only the district treasury officer that can issue remittance transfer receipts in such cases. This restriction may with advantage be relaxed. At present the cash credit accommodation provided for by the Imperial Bank can only be utilised in the disbursement of short-term loans. Facilities should be given to finance co-operative banks on specially favourable terms such as grant of long-term loans for periods over 12 months at bank rate on pro-notes or bonds of provincial banks with fixed instalment and short-term loans for 12 months on pro-notes at 1 per cent below the bank rate. Further, co-operative banks should be freely employed by the Imperial Bank in the matter of discount of bills of exchange or grant of loans on cash credits for financing agricultural operations. Approved central banks in select localities where the Imperial Bank has no branches should act as agencies for management of Government local sub-treasuries.

Co-operative societies disburse their loans in kind. It would be an improvement on banking and will confer greater benefit on the central banks, the village bank and the agriculturists if instead of cash one rupee currency notes of the central banks are issued and they are utilised by members in the payment of their debts to merchants, shop-keepers, etc. Banks can transfer the short-term loans sanctioned to them on forecast system to the current account and one rupee bearer cheques may be issued up to the amount held as deposit. It is being tried in the Salem bank and its success depends on the confidence the people have in the Salem bank and the extent to which this idea is being popularised there.

Pro-notes, bills of exchange to a small extent and hundis to a large extent play an important part in the case of internal trade. Hundis are negotiable instruments in the vernacular and are exempt from the operations of the Negotiable Instruments Act. Care must be exercised in seeing that only real bills representing real trading transactions are circulated and that no kites or mere accommodation papers are let loose in the open market. Trade will certainly expand if the stamp duty on these bills and hundis are abolished.

Hundis are chiefly of two kinds. Those usually current are payable to respectable holders and require an endorsement and delivery before title passes. These are not bearer hundis which pass by mere delivery. There is another kind of hundi where no liability is imposed on the drawee to take up the hundi though he takes possession of goods consigned to him. A drawee paying the amount under a hundi without due enquiry would be liable to the true owner for damages. Sometimes a letter is given addressed to a certain person in the town where the hundi is payable requesting him to take it up in case of dishonour. The public and the bankers might be better protected if the Negotiable Instruments Act is amended as to include hundis where the drawee is made bound to accept his liability in case he has goods consigned to him and the drawee must be made liable to the holder as in the case of other instruments. The effect of section 41 should also be extended to hundis and the drawee made liable if he knows or had reason to believe the endorsement was forged when accepting the hundi. Immediate notice of dishonour must be necessary as in the case of negotiable instruments in English.

560

Specimen No. 1.

ஸ்ரீராமஜெயம்.

நாகபட்டணம்,
1-8-1928.

No. 49.

அ. சின்னசாமி ஜயங்கார் அண்ட் சன்ஸ், மா-ரா ஸ்ரீ மதராஸ் சாவுகார்
பேட்டை ஓ. ஏ. ஓ. கெ. லக்ஷ்மணன் செட்டியார் அவர்களுக்கு எழுதிகொள்
ண்டது, அவ்விடம் கமலாபபூ ரா. திருஷண ஜயா அவர்களுக்கு அவ்வது
உத்தரவுக்கு கண்-வுடன் ரூபாய் ஐந்தாநதது அதுபது மாதநிசம் செலுத்தி
இதை செல்லுடன வாங்கி நமமுடைய கணக்கில் பத்து எழுதிகொள்ள
வேண்டியது.

அ. சின்னசாமி ஜ



ட் சன்ஸ்.

Rs. 560.

(Translation.)

Specimen No. 1.

உ

Sri Ramajayam

Negapatam,

1st August 1928.

No 49

From

A Chinnaswami Ayyangar & Sons,

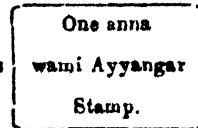
To

M R Ry O A. O. K Lakshmanan Chettiyar Avargal,

Sowcarpet, Madras.

At sight, pay to R Krishna Ayyar Avargal of Mylapore of that place
or order Rupees five hundred and sixty only and debit the same in our
accounts with an endorsement of the payment hereon.

A. Chinnas



& Sons.

Rs. 560.

Specimen No. 2.

A. R. Ramanathan Chettiyar, Mannargudi.

உ
ஸ்ரீ ராமஜெயம்.மன்னார்,
10-10-1928.

No. 69.

மன்னார்குடி எ. ஆர். ராமஜெயம் செட்டியார், சிதம்பரம்
ம-ந-ந-ஸ்ரீ அ. உ. முத்துக்கருப்ப செட்டியார் அவர்களுக்கு அறிவி
டம் கிருஷ்ணசாமி முதலியார் வகைக்கு அவ்விடம் பழையார் முகிரு
ஷ்ண பிள்ளை வசம் ரூபாய் ஆயிரத்து முப்பத்தி எட்டு மாத்திரம்
கண்டவுடன் தெரிசனையில் கொடுத்து இதில் செல்லுடன் இவ்விடம்
கணக்கில் பத்து எழுதிக்கொள்ளவேண்டியது.

Four one
anna

எ. ஆர். ராம ஜெயம் செட்டியார்.

stamps.

Rs. 1,038.

(Translation.)

Specimen No. 2.

உ

Sri Ramajayam.

Mannargudi,
10th October 1928.

No. 69.

From

A. R. Ramanathan Chettiyar,
Mannargudi,

To

M.R.Ry. A. U. Muthukkaruppa Chettiyar Avargal,
Chidambaram.

At sight, pay Rupees one thousand and thirty-eight only to Krishna-
swami Mudaliyar and Company, of this place through Palaiyur M. Krishna
Pillai of that place and debit the same in our accounts with an endorse-
ment of the payment hereon.

Four one
annaA. R. Ramanathan Chettiyar.
Stamps.

Rs. 1,038.

A. R. Ramanathan Chettiyar, Mannargudi.

The first specimen is in ordinary form. The second is made payable to the payee through a reliable party to prevent loss in case the hundi is lost or stolen. Both hundis are orders for payment. If they are made payable to a bank on the back of it is written—

"Pay to the Bank of Madras.

Payee."

"Received payment on behalf of the Bank of Madras.

Shield,

Agent."

Such hundis are sometimes discounted in the local centre itself, but usually they are sent out to a provincial centre where there are branches of important private bankers and other approved banks. Merchants or commission agents very rarely hold such instruments for moneys due to them.

The instruments of ownership of goods that are usually employed in seaports and large cities are railway receipts, bills of lading, dock warrants, warehouse-keepers' certificate and delivery orders. Bills of lading and dock warrants are not negotiable instruments. The High Court of Calcutta seems to have held that jute delivery orders pass from hand to hand either by endorsement or by delivery by custom. There will be no difficulty in the matter of advances on such securities, if reliable licensed warehouses guarantee that the documents offered are real ones and not forged ones, that the packages are not overstated and that the commodity exported corresponds to actualities.

3. Wet lands in this district may be divided into river-fed or rain-fed lands. In the case of wet lands, their value depends on their situation, nearness to the channel, irrigation and drainage facilities and quality of the soil. In this district there are no wet lands for which water is baled out from wells, but water is sometimes baled out from lakes, tanks and ponds.

Dry lands may be divided into garden lands and other kinds of lands. In the case of such lands, their value depends on the extent of water available in the wells for raising the desired crops.

Paddy is the principal crop raised from wet lands and coconut, groundnut, chillies, plantains and cholam in small quantities are raised on dry lands. The value of river-fed wet lands varies from Rs. 450 to Rs. 900 per acre. The value of rain-fed lands varies from Rs. 200 to Rs. 400. The value of garden lands varies from Rs. 300 to Rs. 600 and the value of other dry lands from Rs. 150 to Rs. 250. The value of coconut garden lands is more than that of those producing groundnut, chillies or plantains or cholam. The values given above are those which are usually obtained in purchase by private negotiation. Where such lands are sold in court-auction, the value goes down by half and it does not usually exceed the decree amount or a slightly higher amount than the decree amount. Where there is Government auction for non-payment of revenue, which is usually rare, the value realized is very nominal just to cover up the revenue.

4. Though section 29 (3) of the Co-operative Societies Act II of 1912 contemplates the prohibition of the lending of money on mortgage of immovable property by any registered co-operative society or class of societies the local Government has not chosen to restrict mortgage loans so far as it has been prevalent throughout the history of this country.

Though there are ten primary land mortgage banks registered in this Presidency by the end of June 1927, only three are working. The borrowing power of these banks is limited to nine times their paid-up share capital and reserve fund. On the strength of the landed property which the individual members of the bank pledge to it it issues debentures carrying 7 per cent interest. Government has agreed to purchase debentures equal to the value of debentures sold in the open market subject to a limit of Rs. 50,000 for any one bank and Rs. 2,50,000 for the whole Presidency. Debentures taken up by Government carry 6½ per cent interest. The maximum

limit of individuals is Rs. 2,000 up to half the value of the mortgage properties or $\frac{1}{4}$ of the net income for the period of mortgage whichever is less. No loan is granted for more than 20 years and the interest on loans is 9 per cent. The Registrar or some one appointed by him is the trustee for the board of directors who is to see that the bank fulfils its obligations to the debenture holders.

This scheme is not successful for such banks appear to be most ill-suited to float debentures so as to command public confidence. Central banks are further prohibited from lending on the security of the debentures issued by these banks. The paid-up share capital is $12\frac{1}{2}$ per cent of the maximum borrowing power of the bank and hence large share capital stands in the way. The individual borrowing limit is only Rs. 2,000 which is hardly sufficient for the upper middle-classes possessing substantial security to offer and with real need for long-term productive credit. There has been no public advertisement of these banks so as to attract investors to put their money in the purchase of their debentures.

Hence a central land mortgage bank alone should float debentures and the money should be lent directly through the primary land banks and not village primary societies for the latter cannot be expected to deal satisfactorily with the scrutiny of titles and valuation of properties. The maximum borrowing power of the land mortgage banks should be 20 or 25 times their paid-up share capital and reserve. The individual loan limit must be raised to 4,000 or 5,000. The trustee should see that the central land mortgage bank fulfils its obligations to the debenture holders. Debentures may be floated at 5 per cent and lending to borrowers may be fixed at 7 per cent. This 2 per cent margin is sufficient to cover the expenses of the bank as regards valuation, office establishment, etc. Debentures must be made trustee securities so as to attract sufficient capital. Such debentures ought to be issued under a floating charge on the properties mortgaged. It is sufficient if the Government guarantees payment of interest regularly and by so doing there will be no loss to the Government. If it guarantees payment of principal loss may occur and it may be avoided by the raising of a regular sinking fund to which all advance payments must be credited. Repayment must be by regular instalments within a time fixed in advance. The amount to be paid every year is determined by the length of time and the agreed rate of interest. Where a loan is Rs. 1,000 and the borrower agrees to pay 5 per cent interest and 2 per cent of the principal, by paying Rs. 70 a year his debt of Rs. 1,000 is discharged in 26 years.

Land mortgage banks should not raise their capital by means of deposit for by so doing we will not be able to provide long-term loans at cheap rates of interest; deposit loans can be better utilised in financing short-term credit. It is no use central banks raising deposits at enhanced rates of interest for long-term loans cannot bear such a high rate of interest as 9 $\frac{1}{2}$ per cent. A clear distinction ought to be made between the rate of interest for temporary capital required to carry on agricultural operations and the rate for advancing permanent capital to effect improvements or liquidate prior debts.

The central land mortgage bank ought to be imposed on co-operators with a constitution framed and a board of management nominated by the local Government. It must be constituted under the Co-operative Societies Act. Representatives of primary land mortgage banks, the executive committee of the Madras Central Urban Bank and signatories to the application for registration of a central land mortgage bank should be gathered to adopt suitable by-laws and the constitution and further procedure must be those laid by the Act and the rules thereunder. As land mortgage credit cannot successfully work without a correct valuation of lands to ensure careful scrutiny of titles and correct valuation a legal adviser must be employed by the primary land mortgage banks. The banks should not be allowed to bring properties to sale for default of payment unless the outstanding debt covers at least a major portion of the value of the property given as security. There must be provision for the bank to take possession of land where there is default of payment before the power of sale is exercised. Loans must be called up if

there is depreciation in the value of land owing to its being washed away or deteriorated for some other cause. Due notice should be issued to show the intention of exercising the power of sale and the conduct of sale and for postponement of sale where the highest bid is not adequate. The State should contribute to the cost of inspection and valuation of lands and investigation of titles by taking up debentures at 4 per cent when the public takes it up at 5 per cent leaving a margin of 1 per cent. Such banks should be given encumbrance certificates free of cost for periods of 24 to 30 years at least. Payments of interest and principal are not registered in the record of rights and mortgages are shown as due when really they have been discharged. Such payments should be registered free of cost in the case of co-operative societies. In some cases, though in the record of rights of the State the property stands in the name of one person, the actual ownership and possession rests with another. In such cases in some countries there is a provision made for compensation for loss of property to any individual on account of the neglect and incorrect record of the State official.

Allotments made under the Land Improvement Loans Act should be disbursed through land mortgage banks.

5. A fairly accurate estimate of the extent of indebtedness of the agriculturists in each village is necessary before we can think of the possibilities for improving their condition. As the average ryot does not maintain any account of his expenses such an estimate can only be obtained from the property statement of the members prepared after obtaining careful information by the special executive officer of the supervising union who is fairly conversant with the condition of the villagers. It is found that an average cultivator who owns 5·8 acres of wet land has a mortgage debt of Rs. 1,500 while the value of his land is Rs. 4,375 thus coming up to $\frac{1}{3}$ of the value of his properties. Besides this debt, for the daily expenses of his family such as food and clothing and ceremonies he may require Rs. 400 per year and for kist and cultivation expenses about Rs. 300. The total indebtedness of the ryots of this Presidency in mortgages alone has been estimated by experts at 90 crores. Debts contracted for improvement or purchase of lands or for ceremonies or marriages and other unforeseen causes such as failure of monsoon if they remain undischarged for a year become prior debts for the next year and thus swell the extent of his indebtedness.

It has been found from the figures supplied by the Co-operative Department that co-operative societies have advanced during 1926-27, 236·58 lakhs of rupees to members for the following purposes:—

	RS.
For paying prior debts	37·73 lakhs
For food and necessities of life	7·54 ,
For trade	8·58 ,
For house building	4·14 ,
For cultivation	16·70 ,
For purchase of land	4·50 ,
For improvement of land	5·81 ,
For marriages	·06 ,
For other ceremonies	·15 ,

In the case of accommodation for trade purposes which may be taken as 10 per cent. Imperial and joint-stock banks have paid loans to ryots. In the case of debts for improved agricultural implements and for sinking of wells and other agricultural improvement which may be taken at 10 per cent loans are due to the Government.

Debts for repayment of prior debts, marriage and other occasions, payment of revenue, purchase of seeds and manure and a small sum for implements coming up to 30 per cent are due to co-operative societies. Debts to private bankers and professional money-lenders which include prior debts, debts for marriage and other occasions, famine and other unforeseen causes, and growth of debt by compound interest come to 50 per cent.

Rate of interest on Government loans is $6\frac{1}{2}$ per cent, on bank loans 6 to 9 per cent, on loans by co-operative societies $9\frac{1}{2}$ to $10\frac{1}{2}$ per cent, on loans by money-lenders and bankers 12 to 24 per cent. In the case of joint-stock bank loans the rate of interest rises up to 15 per cent in case of default of a single instalment and compound interest in the case of mortgage loans. In the case of co-operative societies there is no compound interest on mortgage loans and the penal interest is $12\frac{1}{2}$ per cent. Money-lenders charge compound interest and that at an enhanced rate for mortgage loans and they deduct interest in advance. No other agency collects interest in advance.

It has been the experience here that land-owning classes, a majority of whom are absentee landlords, are not actual cultivators or efficient farmers. The number of actual cultivators who are also land-owners is 7 to 10 per cent and land does not generally pass from their hands into the hands of creditors except in the case of a few who are indifferent cultivators and such a kind of class may form about a per cent of the population at the utmost.

The factor which takes away from the actual cultivator the incentive to produce more is not the passing of land from him to the creditor but his want of capital to take advantage of the improved method and his general illiteracy, indifference to new schemes and reserved habit. The remedy lies in educating him incessantly in the advantages of improved cultivation and removing his illiteracy and indifference.

6. Subsidiary industries which give supplemental income to the ryots are cattle and poultry rearing, vegetable gardening, rice and flour milling, oil and sugarcane pressing, carting, maintenance of milch cows, ginning cotton and spinning and weaving, mat and basket-making, coir industry, producing copper, brass and silver vessels. The kind of particular industry suited to each village differs according to local conditions which can be ascertained by a survey undertaken by a responsible officer of the co-operative supervising union. In this respect the report of the special officer deputed by the Government of Madras to study this question may with real advantage be studied. Spinning and weaving seems to be a subsidiary industry suited to a majority of cases. The maintenance of milch cattle and vegetable gardening may also be tried almost in every village.

The capital required for such purposes can be advanced on co-operative lines by co-operative institutions. Those engaged in such industries have no capital for the purchase of those articles required for production and they have to sell at an unfavourable price as they are in immediate need of money and are unable to hold over their products for a better market. Advances for such purpose can be undertaken by co-operative institutions and co-operation can help them by establishing a number of agencies for the collective sale of their products advantageously.

7. Co-operative banks have been connected to some extent only with the Imperial Bank of India in the matter of cash credit accommodation. It has no other financial assistance with any other joint-stock bank or indigenous bank.

In the matter of providing short-term capital by co-operative societies the difficulty so far has been that societies had not properly realized the difference between long and short-term credit. Central banks and other credit societies have been receiving short-term deposits and they have been utilised in a majority of cases to mortgage loans for periods exceeding those of the deposits. Further the question of finding out the short-term needs beforehand by a process of forecast has not had any practical success so far. The advantage of financing agricultural operations without the least delay has been realized only recently and it remains to be seen how far co-operative institutions succeed in the matter of removing the difficulties of the agriculturists in that direction. It may be said that long-term finance has not been attempted at all except in the case of a few land mortgage banks whose debentures have not commanded the public confidence.

Taking the mortgage debt of this Presidency at 90 crores, and other debts at 50 crores, the capital available is 6.5 crores by the Imperial Bank, 20.2 crores by the 13 exchange banks, 5.5 crores by the 73 joint-stock banks and 6 crores by co-operative banks in all making up 38.2 crores; we will require an additional capital of about 100 crores of which co-operative banks may require about 16 crores at least.

No doubt there is the hostility of the professional money-lender towards co-operative banks. Of late the tendency has been for joint-stock agricultural bankers to exhibit the same hostility towards co-operative institutions and it has been in the direction of financing agricultural operations and marketing of crops that they come into conflict.

If co-operative institutions are to thrive successfully and their growth should be stimulated because the Royal Commission on Agriculture has observed that "if co-operation fails then the best hope for rural India fails" and that co-operative credit provides the only satisfactory means of financing agriculture on sound lines the following concessions are essential. Government should allow co-operative banks to make free use of remittance transfer receipts on treasuries outside the district on cash orders in the sub-treasuries within the district. Allotments under the Land Improvement Loans Act should be made available to ryots through the co-operative land mortgage banks. The severity of the income-tax law, viz., subjecting the interest received on sums invested by co-operative institution in the purchase of public securities and land mortgage debentures to taxable income, should be relaxed in favour of co-operative societies. Further land mortgage debentures and debentures issued by the provincial co-operative banks should be included in the list of trustee securities and approved central banks in select places where there are no branches of the Imperial Bank should act as agencies for the management of Government local sub-treasuries.

**Written evidence of M.R.Ry. Rai Bahadur V. MURUGA
MUDALIYAR Avargal, Secretary, the Co-operative
Central Bank, Ltd., Vellore.**

1.—Agricultural credit and credit facilities for small industries.

1. (a) Possession of land, (b) accessories for cultivation, cattle, agricultural implements, etc., (c) human labour for carrying on the work and (d) agency for the profitable disposal of his produce are the most important essentials required for a man to carry on the agricultural industry. The agriculturist needs money for purchasing land for cultivation or for taking a lease from other land-owners. He is obliged to borrow capital for working expenses, for maintenance, for taxes, for the purchase of cattle. He is harassed by seasonal disasters, floods, excessive rain, cattle disease, and insect pests. With these embarrassments it will be apparent that the peasantry must by the very conditions of their existence and tenure, borrow and borrow freely, annually and continuously. Not only is agricultural credit a safe transaction for the lender because it is based upon actual production or productive property but it is also safe, in its essence, for the borrower since it is usually the anticipation of a crop, actual or potential. Since credit is essential to the agriculturist, it is equally essential that the credit should be cheap and safe and productive. It is not merely cheap and facile credit that is needed, it is not merely money lent on easy terms without regard to the use of the money that is wanted. It is guarded, guided and productive credit that is necessary. Co-operative credit satisfies all these conditions. These organizations are small, essentially local, mutual and autonomous institutions. Being cheaply administered and thoroughly solvent, they can command and distribute cheap credit. All members or most of them being borrowers, a low rate of interest is more sought after than high dividends. Being mutual, all profits return to the members and the members being united in common interests form a mutual check one upon the other. Being local, not only are they easily accessible to the borrowers but they can command a complete knowledge of the status and credit of the borrower. They are also able to enquire into the purpose of the loan, to advise upon its desirability, to refuse it if the object is declared unwise, to supervise the expenditure of it and to prevent misapplication of it through the fact that each member is perfectly well known to his co-members who are all of the same locality and can punish not merely by expulsion from the association but by other social methods, any dereliction on the part of a member. It is because that ordinary money-lenders and joint-stock banks have been regarded merely from the point of view of capitalists and share-holders seeking profitable investment of their capital that the security of the loans advanced and the stability of the bank have been points primarily aimed at. These co-operative organizations aim at the establishment and safety of the security of the ryot first and of the loans afterwards. Men are of more account than money and after all loans are safe just in proportion as the borrowers are prudent.

The needs of the agriculturist can be classified broadly under two heads, viz., (1) short-term loans which are small in amounts but are recurring every year and (2) long-term loans which are comparatively large in amount and which are repayable in a number of years from out of the net income of the borrower from his lands. A major portion of the agriculturists borrow under these two heads at one time or other and it will not be an exaggeration to say that a large proportion of these borrowers live always in advance of their income. The sources from which the ryots get their money in my district are—

(1) The village professional money-lender who is also generally the village shop-keeper.

(2) The ryot money-lender who is generally the well-to-do farmer lending his surplus income to his needy brother farmer.

(3) The co-operative societies which have to some extent only taken the place of the first two lenders.

(4) Other professional money-lenders like Chettis and Multanis whose clientele generally consists of persons who are not able to raise their loans from any of the above sources.

The agriculturist generally starts his borrowing cases with oral promises to pay and very rarely such borrowings consist of money but are mostly in kinds such as seed grains, paddy for maintenance, etc. When a couple of such oral promises fail to be redeemed further advances take the form of pro-notes. In course of time these pro-notes are eventually converted into mortgages.

Rates of interest on loans vary according to the security offered, amount required and the purpose for which the amount is required. The co-operative societies in our district charge 9½ per cent. The rate of interest on loans in kind advanced by the village shop-keeper varies from 18 to 36 per cent and these loans are generally repayable in kind at the time of harvest. The ryot money-lender seeking investment for his surplus income is generally reasonable in his demand and his rate varies from 9 to 15 per cent according to the credit-worthiness of the borrower and the amount of the loan. In fact there are many ryot money-lenders who lend at rates far below the rates charged by the co-operative societies provided he is satisfied about the safety of the amount lent.

The part played by the Government in financing agriculturists directly is confined to the advances and loans made to the ryots under the Agriculturists Loans Act and the Takavi Loans Act. These advances are getting fewer in number in our district now-a-days, perhaps owing to the fact that there are so many formalities to be gone through before the amount is got, that there is a lot of red-tapism that surrounds the sanction of the loans and perhaps owing also to the development of the co-operative movement in the Presidency. With the advantage of long-term repayment attached to it, such loans can be made more popular and useful if the Government arranges that the loans reach ryot with the least amount of formalities and without any unauthorized deductions in the amount before it reaches the borrower. Now that co-operative societies are to be found in all taluks of our district, the Government can advance these loans through their agency thus minimising a lot of formalities and delay.

The part played by the Imperial Bank of India in agricultural finance is very insignificant. The operations of other joint-stock banks are also not worthy of notice as far as agricultural finance is concerned. (1) Ignorance and isolation of the peasant, (2) the contempt with which the banks would view the application by an unknown farmer for a petty loan and (3) the uselessness of the security offered, viz., the little farm or the poor stock to a joint stock bank working outside the borrower's immediate neighbourhood account for much of the difficulty of these banks in catering successfully to the need of the agriculturists. The agriculturist, unlike the trader, wants money for a fairly long term and the business done by these banks is not suitable to them. Most of them do not make their advances for a term longer than six months and most of them also do not take mortgages. Unless more branches or agencies are established in the immediate neighbourhood of the borrowers and unless longer terms are granted for the repayment of loans and unless amounts are lent on mortgages also, the Imperial Bank of India and other joint-stock banks may not be of much use in financing the agriculturists directly.

The total requirements of the agriculturists in our district under short-term loans for cultivation and other annual recurring expenditure would on a modest estimate amount to about a crore of rupees and to about eight crores for long-term purposes like permanent improvements and clearance of prior debts. If at all any credit facilities have been afforded to the farmers of our district on an organized scale it is by the agency of the fairly large number of co-operative societies in our district. There are about 1,900 or 2,000 villages in my district and there are about 800 societies catering to the needs of these villages. These 800 societies include in their operations about 1,200 villages. The working capital of the central

bank at Vellore is about 35 lakhs out of which only about 5 lakhs of rupees have been issued as short-term loans for short-term purposes. It will be seen that co-operative movement, though a major portion of the area has been covered, has been able to cater to only about 5 per cent of the requirements. As under the present system, the movement cannot hope to achieve anything substantial in the way of relieving the depressing condition at present prevailing in the rural areas. The existing co-operative societies are not in a position to give loans for a longer term than five years since they get their deposits and borrowings for periods ranging from six months to three years only. The ideal to be aimed at is to make every co-operator who joins a co-operative society to be completely independent of any outside money-lender. He will continue to borrow from outside if the society is not in a position to provide for all his reasonable requirements. The present co-operative organizations cannot achieve much by the provision of short-term credit only to the agriculturists as long as the ryot is kept under subjection by the outside money-lender and repays his prior debts from his harvested income. These money-lenders have an excellent system of distributing and collecting loans. They understand their business and are acquainted with the means and character of each individual borrower. They are shrewd, patient and economical in their management. These qualities should be developed in the co-operative organizations to a very large extent by those who look after the management of these organizations with this difference, viz., that the management would have the welfare of the member in their view and not aim to profit themselves. If the existing organizations are not able to satisfy the needs of the agriculturists for long-term loans, some other organizations like land mortgage banks ought to be introduced specially to relieve the indebtedness of the ryots. If the ryot is heavily indebted, he loses his interest in his land since he is not sure of his land. The small holding of the average ryot is so heavily encumbered that loans repayable in anything less than thirty years will be of very little use.

Co-operative organizations have to undertake the following items of work if they are to successfully relieve the distress of the agriculturist:—

(1) Credit facilities for the removal of the prior debts and for permanent improvements of land requiring large amounts repayable in small instalments spread over a number of years.

(2) Current expenses both for carrying on cultivation and for maintenance of the ryot during the period of cultivation till he sells his produce.

(3) Supply of the needs of the ryot by securing the articles required by him in bulk and distributing the same to the ryot with a minimum of profit.

(4) Arrangements for the pooling of the produce of the farmers and for selling them in the best market and at a suitable time so as to minimise as much as possible, the intervention of the middlemen.

(5) Provision of suitable supplementary occupation to the ryot so as to give him an additional income when he is not engaged in cultivation work.

Provision of long-term loans to agriculturists for a long period of years is not possible to be undertaken by ordinary banks and existing co-operative organizations but requires the establishment of land mortgage banks on a large scale. Since the Government gets a major portion of its revenue from land it is but just that it gives all the necessary help for the steady establishment of such land mortgage banks. The unequal struggle between the poor agriculturists and the capitalists will go on as long as the co-operative organization is not made efficient and sufficient to defend the agriculturist against the exploitation of the individual capitalist.

2. Owing to the smallness of the quantity of produce offered for sale by each agriculturist and the consequent cost of transport and owing also to the ignorance of the agriculturist in the scientific handling of the produce, the ryot sells his surplus harvest to the small middlemen who make it their business to visit a group of villages for the purpose of purchasing the produce. When the demands of his creditors which are usually made at the time of the harvest become very pressing and when he has to

meet other obligations like the payment of the Government kist, performance of festivals and marriages the necessity for disposing of his produce at the earliest opportunity at the first rates offered is all the more felt. The ryot is ignorant of the market conditions either local or foreign. The small middlemen sell the produce collected to a merchant in the nearest town while he in his town makes his contract with the wholesale trader for the sale of the commodity held by him. A co-operative organization can arrange to bulk the produce and help the ryots in disposing the produce to the best advantage at a suitable opportunity. These organizations can eliminate to a large extent, the operations of a series of middlemen and secure the profit to the producer himself. Since the producer, i.e., the agriculturist cannot afford to wait for his money until the produce is sold by the co-operative society, he has to be given an advance of at least a major portion of the value of produce at the prevailing market rate at the time of the deposit of produce in the society. The co-operative society in its turn should arrange for a lump sum advance from the district bank. The district bank should arrange to get in accommodation either through seasonal deposits or through the provincial bank or the Imperial Bank of India. There ought not to be any delay in carrying out these arrangements and the ryot ought to be able to get his money as quickly as possible. Just as the merchants and traders get accommodation from the Imperial Bank of India, and other joint-stock banks on the pledge of the produce, the co-operative societies should be able to get their funds through their district banks. In our district there is a branch of the Imperial Bank of India at the headquarters of the district and the amount of such transactions on the pledge of produce done by the merchants will not even amount to 5 per cent of the value of produce offered for sale in the district. The rest of the money required by the merchants is found by private money-lenders like Chettis, Multanis, etc. There are no joint-stock banks in our district. There is a very great scope in our district for the co-operative movement to undertake this work. The difficulty is want of capital and want of a set of public-spirited men having the necessary leisure and knowledge of the work. The Imperial Bank of India in whose hands enormous amounts belonging to Government are lying idle without interest should be made to liberate more of its money for the agriculturists. They should increase their overdrafts to the various co-operative central banks and charge a less rate of interest than at present. The other difficulty relating to want of proper men for the work is due to the large amount of work involved in gathering the produce, in finding a suitable place for storing the same, in safeguarding the produce till a market is found out and in finding a suitable market for sale of the produce. It is very difficult in finding enough men of leisure and with the necessary knowledge and inclination to undertake such work from among the villagers. Paid agency for these purposes will increase the cost of marketing the produce. The Government should come to the help of these co-operative organizations, (1) by providing or helping to provide suitable granaries at suitable centres for storing the produce, (2) by contributing towards the maintenance of a paid staff and (3) by establishing a central agency for purposes of advertisement and dissemination of information regarding the market rates of various commodities periodically. The Government can also help by persuading the Imperial Bank of India to issue remittance transfer receipts in favour of co-operative societies free of charge on all its branches and by themselves issuing between sub-treasuries at par.

In our district the system of hundis does not play an important part in the internal trade. Very few merchants who deal with the Chettis and Multanis have recourse to such hundis and even that only occasionally. The system is not understood by the petty traders in the district. The only negotiable instrument that is very popular is the demand promissory note with a joint and several responsibility of one or more persons. There being only one or two banking concerns, the cheque system also is not widely prevalent. The adoption of the hundi system which is more or less analogous to the system of bills of exchange will certainly facilitate trade transactions. Reduction of stamp duty on bills of exchange may to a certain extent popularize the system. The rules regarding the liability of endorsers if action is not taken immediately after dishonour can be

relaxed a little until at least the business habit is acquired by the petty traders in the rural area.

Loans on the security of instruments of ownership of goods like railway receipts are not generally given since absolute ownership is difficult to be established when legal action is to be taken in such cases. In a majority of cases it is the actual goods or produce that is pledged to the lender. The system of licensed warehouses can be tried with advantage under proper control and frequent check and audit of the Government officials. The Government will have to meet a major portion of the cost of warehouses also.

3. Generally land is classified under two heads, viz., wet and dry.

Wet lands provided with good source of water-supply either by a river channel or by a well in our district is valued between Rs. 2,000 and Rs. 3,000 per acre. The value of an average quality of wet land which has got some source of water-supply and does not depend directly on rains is between 600 and 1,000 per acre. There are dry lands under wet cultivation through the agency of well irrigation and these are valued practically as wet lands and are worth between 600 and 1,000 rupees. The value of dry lands ranges from Rs. 10 per acre to about 600 per acre. In certain parts of the district like Tiruppattur taluk where dry cultivation predominates the value of the dry lands ranges from 500 to 1,500 per acre.

The value of dry landed property is affected by various factors:—

(1) If a purchaser voluntarily offers to purchase a piece of land, the value set on the land by the owner will certainly be very high.

(2) If the owner himself offers to sell his land by private negotiation and the purchaser also is inclined to take up the offer the value will be much less than in the case of No. 1. In this case the value will be a little more or less according to the necessity and urgency of the land-owner for money.

(3) Value of land in the event of sale by court auction though depending on the paucity or otherwise of bidders in the auction will generally be far less than in the above two cases.

(4) Government auction for non-payment of revenue would by itself indicate some inherent defect in the land though the sale is free of encumbrance for no sane man will allow a valuable piece of land to be sold away in auction for non-payment of a small amount as revenue. In many cases such lands coming up for Government auction will not be worth anything and will not be capable of being profitably cultivated.

4. I do not know of any legal impediment to mortgage of lands in my province. There are three land mortgage banks in my district of which only one has done some work to the extent of about ten thousand rupees. The area of operations of these mortgage banks is generally within a radius of about 7 miles. The difficulty is in getting long-term money for their transactions. Debentures issued by these small concerns have not been popular. With regard to the title of ownership of lands mortgaged to land mortgage banks I would suggest the same arrangement should be made to show the extent of the encumbrance on the date on which an encumbrance certificate is granted. The encumbrance certificate at present issued by the Registration Department shows only the mortgages created during a certain period on a certain property but does not show whether a previous encumbrance has been cleared or not. The clearance of an encumbrance should also be made compulsorily registerable just like the creation of an encumbrance. The grant of an encumbrance certificate should be more speedy than at present. In the case of a land mortgage bank, it shall be made possible for it to acquire a priority of title if it publishes in the District Gazette one or two months before it lends on the property that the property is offered for pledge to the land mortgage bank and that any prior mortgagee will have to notify to the bank the existence of such a prior mortgage if he wishes to retain the priority of his title to the mortgaged land. There can be no doubt that the system of registration in public offices of title which alone validates all transactions like encumbrances, sales, successions, etc., is the best for speedy ascertainment of title.

Since the debentures of a great central bank would command immense credit and find a ready market at rates of interest below those of mere local mortgage banks it would be advisable that local mortgage banks get their working capital through the central institution alone instead of issuing their own debentures.

Deposits being in their very nature withdrawable within shorter periods can find no employment in land mortgage banks. They are also a source of expense and danger. In order to employ them the bank has to enter into ordinary banking transactions with all their risks and with the chance of locking up short-term money repayable at call or at short notice.

The following privileges from the Government would help very much in the successful establishment and working of land mortgage banks in the Presidency:—

- (1) The Government should guarantee the interest payable on their debentures in order to give the public confidence in its stability. This guarantee is useful chiefly as an evidence of the belief by Government in the credit of the bank, of the connexion of Government with it, of its interest in its success and of its approval of its operations, i.e., as an advertisement to the public that the Government desires the success of the bank and believes in it and its usefulness.
- (2) The Trust Act should be so amended as to permit the investment of trust funds in debentures.
- (3) The Government should also invest the funds lying in deposit with it at little or no interest.
- (4) The Government should contribute to the extent of at least half towards the cost of inspection and valuation of lands and assessment of the credit of borrowers.
- (5) The right of summary recovery should be given to the land mortgage bank.
- (6) Exemption from the stamp duty and from income-tax.

In order to give the new institution a better chance of success, to encourage what is considered as an experiment and a new departure and to avoid the complications and public mistrust that would result if the scheme fails, the above privileges have to be given by the Government. With the general object of ensuring the exact observance of the law and of the statutes of the institutions, to prevent any misuse of funds, to make the security of the bank and of those interested in it as complete and lasting as possible and to prevent the banks from being so worked as to oppress rather than assist their debtors, the Government should have certain suitable powers of control and supervision reserved to it. This Government control may take the form of having a Government expert on the directorate who will watch all transactions, make periodical inspections, countersign all bonds or debentures of the bank so that the debentures in no case exceed the amount of mortgages possessed by the bank. If necessary, this expert may have also the power in rare cases to suspend or veto specific resolutions of the directorate which in his opinion is detrimental to the progress of the bank subject of course to the approval of the Government. The Government can also provide for one or two more seats on the directorate for being filled by nomination by it either from Government servants or from non-officials at their discretion.

The rate at which debentures can be issued by the central organization may be fixed at 6 per cent. The debentures will be passed into the individual mortgage banks at 6½ per cent. A margin of 1½ per cent to the primary land mortgage banks will, I think, be enough to cover their expenses and the lending rate to the borrowers can be safely fixed at 8 per cent.

6. My district is not a cotton producing district. Excepting rice mill-ing, gur-making and hand spinning, there are practically no other subsidiary industries in my district. Owing to the slack season, agriculturists who live near to the large towns find coolie work in the towns, and the others are practically idle.

Such industries like poultry rearing, fruit growing, bee keeping and dairy farming, can be profitably undertaken by the ryots which will supplement their income to an appreciable extent. Wherever it is possible, a ryot can sink wells in his dry lands and convert the same into garden land so that he may find occupation throughout the year. His women and children also can help in the business. Co-operative societies should encourage such operations by advancing the necessary capital required by the agriculturists and arranging for the disposal of the products. Hand-spinning can be universally introduced since the finished product can always be disposed of without difficulty. The primary co-operative society itself can do the financing work and there is no necessity for any separate organization for the purpose.

6-A. Handloom weaving industry is carried on on a large scale in our district. The financing of such an important industry is at present practically under the control of middlemen merchants. There are two weaver societies in our district to help the weavers. Owing to lack of proper men to run the business affairs of these societies they have not been doing appreciable work. The difficulty in such cases is the finding of a suitable market for the finished products and the supply of yarn at a cheap rate. Such societies for weavers require constant and close supervision by expert business men and unless business is done on a large scale the overhead expenses will be very high. The Government should come to the help of such people and establish central industrial banks, for financing such industries.

7. There are no joint-stock banks in our district. There is the branch of the Imperial Bank of India. There is a co-operative central bank and there are about a dozen indigenous banks represented by Nattukottai Chettis and Muttanis. The co-operative bank caters to the need of the agricultural population and the Imperial Bank branch confines its activities to merchants and traders. The Chettis and Muttanis find their clientele from both the merchants and agriculturists who are not able to get their accommodation from either of the above two sources for some reason or other. The clientele of each of these financing institutions being separate, there is no conflict at present in the relationship between these organizations.

The present difficulty with regard to the co-operative societies in the matter of their finance is with regard to finding money for long-term needs of the agriculturist. The Co-operative Central Bank at Vellore has a working capital of about 35 lakhs, a major portion of which consists of short-term deposits repayable within one or two years. The maximum period of repayment of its borrowings does not extend beyond five or six years. While short-term accommodation is an absolute and urgent necessity for every one connected with the agricultural industry for carrying on such an industry, long-term loans are also necessary to the ryot at the same time to enable him to retain the income earned by him by the liberal use of short-term loan in his work. A major portion of his income is swallowed up by interest charges on the former debts. These long-term loans can only be repaid out of any surplus profit arising out of his industry after meeting all charges connected with cultivation and expenses for his maintenance during the period. Since the surplus profits in agriculture, unlike other industries, are proportionally very small, these loans should be made repayable in small instalments spread over a number of years considerably longer than ten years as at present. The existing institutions will not be able to undertake such long-term finance with short-term deposits. Speedy establishment of a net-work of land mortgage banks giving long-term loans by issuing debentures repayable in 30 to 50 years is the only convenient remedy.

Written evidence of Khan Bahadur S. K. ABDUL RAZACK, M.L.C.
'Razack Mansil,' Saidapet.

1.—Agricultural credit and credit facilities for small industries.

The various banks that exist at present do not touch more than a fringe of the needs of agriculturists. On the other hand, they issue credits only to merchants who are of approved stability and they in turn help the small traders who, as middlemen, raise the rates and purchase in the markets and not always direct from agricultural people. The few co-operative banks that are run by the people are beneficial mostly to the urban population and are equally out of touch with the rural ryots. Seasons and rains do not wait for anybody, and ryots who are not able to take immediate advantage of them stand to lose and to suffer. Ploughing, weeding and harvesting demand money at the shortest notice and the ryots prefer to take loans from the Marwaris and Chettis who pay at once at higher rates than from the banks whose circulations and sanctions take a week or two. Another facility is that private lenders keep on counting interest while co-operative and other banks rigidly enforce all provisions for monthly overdue arrears. The third advantage is the secrecy of the former transaction in contrast with the distasteful publicity of the latter, to which no ryot of any position desires to subject himself.

These defects may be partially cured by starting a co-operative bank for each centre or cluster of villages under the direct supervision of an honorary worker of the locality and in so changing the rules as to facilitate the immediate disbursement of small loans on credit or on crops and in relaxing the rigidity with which monthly repayments (to which the Indian ryot is totally unaccustomed) are vigorously enforced at present. The Act and the rules as they stand at present must be revised accordingly if real and timely benefits are to accrue to the ryots.

2. *Marketing crops in the district.*—Bills and hundis are generally looked down upon by the ryot class. They are in dire need at harvest time and require immediate payment. Pooling of harvested produce and marketing by co-operative means are not possible in a country divided by classes, creeds and factions. Any amount of advice or pressure from without or from Government will not avail. The inclination or the "urge" must start from the ryots themselves; but all being in dire need at the same time, an inclination to pool the yield or the profits will not emanate from them with the result that the yield is sold to the highest bidder or to him who has advanced money long before the harvest. As an experiment, the Government will do well to start one or two such pools in selected places in each taluk under the non-official management of honorary residents.

* 3. *Value of land.*—This is one to two thousand for wet lands and much less for dry lands; but each case has its own value depending on the locality, its nearness to water source, unfailing supply of water and competition between purchasers. Items (a) and (b) are miserably low.

4. *Land mortgage banks.*—There are no such banks here. All mortgages are taken by the monied few, or by the Marwaris or Nattukottai Chettis. Mortgage banks may well be started by the Government in two or three centres in each district and run experimentally with a view to detach the ryot from his contract with greedy money-lenders, and suitable facilities offered, such as free encumbrance certificate, free registration, free stamp duty, low interest and easy repayment with the list. The only security that the Government should look to is the compulsory purchase of all previous mortgages once the land is mortgaged to Government and a law to make any subsequent mortgage ineffectual and void. The Civil Law, the Stamp Act and the Registration Act and other enactments may be slightly altered to secure the above facilities.

5. *Estimate of indebtedness.*—No correct estimate is possible. Numerous transactions are hidden in the minds and in the archives of the parties and many people conduct what is called "the hand loan" system to a large extent until their solvency is doubted or their social position is lowered. Instead of wasting time in gauging the entire phantom of the ryots' complete indebtedness, the Government will do well to begin their experimental banks at once in selected areas. The evil has advanced too far and has existed so long that the remedy, such as it is, should not be delayed in mere investigations.

The order of the need for debts is re-arranged as below:—

1. (a) Earlier debts.
2. (c) Growth of debts, etc.
3. (b) Marriage, etc.
4. (h & g) Improvements and wells, etc.
5. (f) Seeds, etc.
6. (d & i) Land revenue and education.
7. (e) Famine.

The conversion of land-owners into tenants and less than tenants, i.e., beggars and coolies, has become the order of the day especially in the case of small owners whose only refuge is in the streets of big towns bent on pastures new, to which work they are not accustomed. The existing high rate of interest—24 to 36 per cent per annum—is the root cause of this disintegration.

6. *Industries allied to agriculture.*—Nil.

6 (a). *Other industries.*—Weaving and fishery.

Weaving is done on a large scale in the district. This can be helped by getting some weavers properly trained at Government cost and placing expert advice at the disposal of all weavers. A co-operative kaili stores may be financed in each big centre under Government supervision or under trusted and willing honorary workers.

Fishery.—Manual labour is the method in vogue and the catch is invariably sold locally or exported to the neighbouring towns. The Government may place a fishing trawler at the disposal of the people and accustom them to better methods and gradually bring them round to share and to sell the catch on a co-operative system, care being taken not to oust the poor fishermen altogether from the only profession they now have.

But success in this attempt will not be ensured unless and until the Government places at the disposal of these fishermen a cheap means of preserving the fish which will enable it to be exported to inland parts where it will sell at considerable profit without decomposing and without becoming—as it does at present—unfit for human consumption. No other and cheaper refrigerator can be had in these parts except CO₂ obtained from magnesite dug out of the Salem hills and the Government will do well to see that this is placed at the disposal of the public either through Government agencies or private enterprise as soon as they possibly can.

7. In my opinion, co-operative banks do not thrive as much as they should, by reason of bad selection of managers and by the paucity of funds at their disposal and of the difficulty, delay and red-tapism which now surround their transactions. Greater freedom, larger funds and the substitution of monthly by seasonal repayments and the starting of village societies in suitable centres will advance the movement very much and meet the ryot at his door and relieve his needs.

II.—Indigenous banking.

1 to 6. There is not much of this in these parts excepting the inevitable "Marwari" banks. These lend money at enormous rates and take every kind of articles—from jewels to domestic utensils—on the "pawn" system. Their capital is obtained at Madras or Bombay at 9 to 12 per cent and loaned to needy men in small sums at 24 to 36 per cent and more. "Hundis and credit instruments" are not much in vogue in rural parts and smaller towns.

7. The indigenous Marwari banks are not liked by any, but are both condemned and resorted to by those who are in need. They are protected sufficiently well by the existing civil law of the country and need no more protection. Their dealings are never beyond reproach.

8. *Vide* answers to Question 7.

9. Marwaris earn a lot in spite of bad debts and other losses.

10. Money is never lent except on the surest security.

11. No remarks.

12. No. Even Marwaris find it difficult to get their money from their bigger men in Madras and Bombay who in their turn obtain it sometimes from the Imperial Bank and other banks on the "three months payment" system.

III.—Investment habit and attraction of capital.

1. Masses have barely anything to save and those few who save do generally invest in mortgages and banks. Conversion of coins into jewels, etc., is the fashion of those who save and the habit will not be eradicated for centuries more.

2. Postal cash certificate and savings banks are not popular except with a portion of the official class, partly on account of the low interest and partly on account of the delay that attends every withdrawal.

3. Government securities are not popular in rural places and as they pay a lower interest and are not easily convertible immediately, people with spare money do not generally take to them. Farmers generally lend between themselves to a small extent and are repaid in cash but mostly in kinds.

4. Cheques are used only by big merchants and officials. Payment by cheques to most of the Government servants is not advisable as the existing cash payment is very convenient.

5. Yes. Banking and investment habit is of very slow growth. Confidence in good and paying concerns is shattered every year by the collapse of one or two big firms and both the masses and the affluent few think it safer to sink their savings and extra cash on unproductive jewels and are content with the small but the sure yield on houses and lands.

**Written evidence of M.R.Ry. S. V. SUNDARARAJAN Avargal,
Advocate and Municipal Councillor, Palamcottah,
Tinnevely District.**

1.—Agricultural credit and credit facilities for small industries.

1. (1) The present system is twofold: Co-operative Rural Societies and village money-lenders and middlemen traders—ultimately the urban capitalist—including the indigenous banker and joint stock banks. Co-operative societies serve only 4 per cent of the agriculturists, and 2 per cent of the people. The members of co-operative societies have dealings with them and also with village money-lenders; for the reason that the latter have to help them in times of need. Co-operation has not given the ryots all they need. Only 5 per cent of the villages have joined the movement; total number of rural societies being about 11,000 in India; of which 9,000 are said to be agricultural. The members number about 5 lakhs. The rural societies provide banking to the value of about Rs. 200 crores in India. In Madras Presidency there are 31 Central Banks. Though by-laws of societies lay down that moneys should be lent for agricultural expenses the members exhaust their borrowing for paying their past debts, for extravagant expenses relating to ceremonies and sometimes for buying cattle. The result is that they are unable to get loans for current agricultural expenses. Every ryot wants throughout the year agricultural capital in the shape of credit; and the only major institution is the village money-lender and middleman, who lend and purchase his produce, that can accommodate him. Long habit has accustomed him to resort to them, who have already a hold upon him and whom the ryot cannot afford to displease.

(2) *Interest.*—Rural co-operative societies charge 9½ per cent per annum. Others 15 to 24 per cent per annum.

(3) The ryot now and then resort to another unsystematised co-operative borrowing; the chit transaction. A person, who is called a middleman, karaswan or stake-holder, forms a society of 20 persons. Each subscribes Rs. 50; the funded subscription being thus Rs. 1,000. This is lent to a subscriber in two ways. It is auctioned to the lowest bidder, say at Rs. 900; the purchaser continuing to pay again the future subscriptions in instalments of Rs. 50. The Rs. 100 left unauctioned is distributed to the remaining subscribers. The other is, drawing lots, and the lucky man gets the 1st prize, paying the future instalments as stated above. The interval between one auction or drawing and another is 6 months. Hence such transaction is called Poo Chit, that is, Harvest chits. At the time of the two harvests in the year this auctioning or drawing is done to enable the ryot members to pay their subscriptions by sale of paddy or other produce. The auction purchaser or the prize winner executes a bond to the middleman charging his immovable properties for punctual payments of the future instalments. On failure the interest on that instalment is between 24 and 48 per cent per annum.

(4) The nature of security given by ryots is immovable properties to the extent of about 50 per cent of the loans from the co-operative societies. Of course such security is demanded more by the village money-lenders; except in cases, when the village money-lender combines in himself the middleman for buying the produce. Then the loan is made against the crops. Such crop loans are for the greater part given for cultivating expenses. Promissory notes are rarely given, except when the money-lender takes it as an advance security—for future advances. He takes care not to negotiate it, lest he lose power over the ryot.

(5) Government give loans under the Agricultural Loans Act for sinking wells and other improvements of a permanent nature. Recently they promised to help Land Mortgage Banks to the extent of buying Rs. 50,000 worth of debentures. They have induced the Imperial Bank to allow the Madras Central Urban Bank an overdraft of about Rs. 60 lakhs. They

are spending in this Presidency annually about Rs. 7 lakhs for co-operation. The Imperial Bank is indirectly influencing the marketing of the agricultural produce, by loans to joint stock and indigenous banks, and wholesale traders. The Bank lends on what they call Loan System, i.e., they advance about 70 per cent of the market value of the produce, of which it takes possession in their godowns which can be redeemed on maturity of the loan; if not the produce is sold in public auction, and the sale-proceeds are appropriated to the loan.

(7) Ninety per cent of the financing of the agriculturists is done by the middleman and village money-lenders, at least, in the major portion of the villages in this district. There is not much of co-ordination to speak of.

(8) The estimate that I can give of the total amount of capital required is twofold (a) the liquidation of Rs. 1 crore of agricultural indebtedness in this Presidency and (b) an equal amount of capital for putting the ryots on their own legs.

(9) The defects are many and diverse. The elimination of the trading middleman is a greater necessity than of the village sowcar, whose activities can be controlled by adequate statutory provisions. When once there is an organisation for easy marketing of the produce at prices favourable to the farmer, the ryot will easily appreciate the disadvantages of the middlemen, and will try to escape from him. Other defects are: rigidity and inelasticity of the rural societies; inability of the Central Banks to make their excess cash reach the needy farmer; the inability of the present organisations to show the ryots the way to easy discharge of their debts, such as the sale of their produce at favourable prices; the trading middleman's usurious terms in giving loans in cash advance, attractively held before the ryot's eye, who is further given hopes of the sale of his produce, which no one else does for him; compulsory repayments of the co-operative societies' loans at the harvest time, which prevents the ryot holding up the produce for a favourable market; want of education and of idea about co-operation being united strength; high rate of interest charged and exploitation by rural money-lenders and middlemen; extravagant expenditure in non-productive ceremonies, religious or otherwise; inability to budget income and expenditure; and some say, passion for English education and foreign dress; faction, etc.

Remedies I suggest, if I can hope to.

First and foremost is discharge of his existing debt by a long term loan at not more than 9 per cent per annum interest, repayable in not less than 25 years and financing him with short term loans to meet his domestic and agricultural necessities. None of the existing institutions has helped him in the least. Except the village usurer and the trading middleman and now and then the capitalist banker, whose agents are also in the villages, all are actuated with good ideas. Government and the Co-operative Department do their best; but their attempts have been of no avail. The existing banking institutions, except the co-operative banks are suited only for commercial classes. Co-operative societies alone can be made to reach the agriculturist. The Unions and Central Banks must begin a campaign of education and propaganda; they must free their excess cash—for it is said that the Central Banks have about Rs. 32 lakhs in excess cash; and the Madras Central Urban Bank has about Rs. 50 lakhs in cash, with the privilege of Rs. 60 lakhs of overdrafts from the Imperial Bank. The existing Central Banks must open branches in the taluk headquarters, to be near the scene of their operations. The Federal Institutions should not only supervise and inspect and audit, but must induce more villagers and villages to become addicted to co-operation and co-operative idea; as in my opinion that alone can at present solve the agricultural credit problem. Crop loans should be freely made, and the borrowing ryot should be given time to wait for a favourable opportunity to sell his products and discharge his debts. If necessary the rural banks or their unions should take up the storing of the pledged crops in godowns built for the purpose on capital supplied, or on loans given, by the Central Banks. I should like to suggest that Government should step in here and advance at least 50 per cent of the money required at 3 per cent interest to unions to build store houses for storing agricultural products, on which money has been lent, and which must await a favourable market. There must be

some organisation, well supervised and inspected and audited for purchase and sale of produce. The ryot is illiterate but is intelligent; once you show him the easy way to earn money by proper storing and sale and he will readily fall in; because that will bring him some money in excess of that required to pay off his debts.

2. The present method of marketing agricultural produce is diverse. There is the ancient institution of Shandy, weekly market, held in important centres; to which the small farmer takes his produce and sells. Next come our middleman and usurers, who combine their activities more often than not, with being practical agents of the capitalist wholesale trader or merchant at taluk or district headquarters, whom they feel. The cotton mills sometimes buy straight necessary cotton for cash; sometimes advance against the produce of a season, in which they dictate their terms. I must say that there is no organised marketing, to enable the seller to sell, uninfluenced by external pressure. The education of the ryot is not such that he can of his own accord market his produce. He must combine himself with others of the same kind; and must be taught that in combination lies his strength. So, pools and co-operative effort for marketing is the best way to put some sum into the farmer's pocket, to relieve him. There must be parallel societies, for purchase and sale of produce, along with rural loan societies; or the farmers themselves should combine into producers societies, to enable them to dictate their own terms. And I am not afraid of American trusts in the near future; for the ryots are at present needy. The producers' societies would be able to command loans on pledge of stock in godowns; and distribute the money among themselves; loans to be repaid when the stock is sold, even in instalments. They would command greater security; for they give the best form of security, next to unencumbered immovable property. Take for an instance of good organisation, the Tiruppur Co-operative Trading Society, with its capital of Rs. 1,00,000 of 10,000 shares of Rs. 10 each. It gives an advance of 70 per cent on produce, pledged to the society such as cotton, cotton seed, onions, chillies; stored in many godowns. It charges interest only at Rs. 9/6 per cent per annum. In times of optimum production such societies give good advance on pledge. Thus the ryot gets money, and his produce will surely be sold in the most favourable market, as it is to the interest of both the borrower and lender. About Rs. 2 crores worth of Malabar produce, such as arecanut, coconuts, etc., are sold annually; but there is no organisation to pool them and grade them and market them in an advantageous way. All co-operative societies of whatever nature should be linked together so as to form one organisation, commonly interested only in one human being, that is the agriculturist.

As to the credit facilities there is no free flow of moneys from the Central and Apex Banks to the rural societies. There is nervousness. There is the overdue loans. There is the overdue interest. All come to many lakhs of rupees. In this Presidency alone there is one crore of rupees of agricultural indebtedness. But should we sit quiet with folded hands. This mass of debt must be relieved. So, it is I propose that the only institution that can give relief is co-operative banks and societies. The Central Banks should open branches in many centres in the district where they will be in touch with rural conditions: banks and producers' sale and purchase societies, to whom they can easily advance loans finance them opportunely. There ought to be a network of such banks; and then only the ryot will become accustomed to credit bills and papers. He does not know now what a negotiable paper is; but when combined with others, he realises the immensity of the produce, upon which paper moneys can be made with good credit, he will wake up.

3. One acre of double crop wet land in Tinnevely district sells on the average at Rs. 3,000, single crop lands at about Rs. 1,200. The value varies with the nearness of the irrigation channels and sources. This is in private sale. Court auction sales yield low price; as there is no guarantee of freedom of encumbrance. Revenue sales yield better, as they are free from encumbrances. But it is difficult to give comparative rates, as such sales by public authorities are often vitiated by combinations amongst bidders.

4. There is no legal impediment to mortgage of lands in this Presidency. Four or five mortgage banks were opened a few years ago in this Presidency with Government promising to buy Rs. 50,000 value of debentures at 6 per cent interest, in respect of each bank, on condition that the bank should

get the other Rs. 50,000. Evidently they have not been able to do anything. In 1925, I think, the Government budgeted about 2 lakhs of rupees for the banks; but they lapsed, evidently as the banks were unable to utilise it. In 1926 the Registrar of Co-operative Societies wrote to the Central Banks that they must not invest in such debentures. It was a death blow to them. In my humble opinion the banks were started without a plan and system. There is a bank in this district, of which we the ordinary people have not heard much. There should be a Central Organization, such as The Madras Central Urban Bank, to float or issue debenture bonds, and lend direct to Rural Mortgage Banks. Interest on the debentures should be 6 per cent per annum; moneys should be lent to societies at 7½ per cent interest; and the societies should lend to members at 9 per cent interest. The area of the Rural Bank should be limited. Both the Central Bank and the Rural Bank should contribute to a staff of responsible financiers to value the properties and to see to the proper application of the loans. The mortgages must be only of produce-yielding agricultural lands. The moneys realised by repayment of the loans should go to redeem the debentures.

Another suggestion is that the Apex Bank should be started with a capital sum, 50 per cent of which should be subscribed by the public; 50 per cent by the Rural Banks. Then the debentures are to be floated as stated above.

It is said that the existing village societies have already about 50 per cent of the loans secured by mortgages of immovable properties. These should be transferred to Central Banks, on loans to be granted by them, with liberty to issue debentures. The Central and Madras Central Urban Banks have already about 70 lakhs of rupees cash, which could be utilized in the purchase of the debenture bonds, so that with security their moneys can be made to reach the ryot in the village. I venture to state that the present co-operative societies should be kept separate for short term loans, say for at the most a period of 5 years. New Agricultural and Land Mortgage Banks should be instituted, with only one Central institution issuing debenture bonds. Other details may be worked out, about the period of the debentures; about the period of the mortgages; about the various terms of interest. Perhaps each district would have its own peculiarities regarding them.

I should not omit to mention here another small plan suggested; and that is, as the Madras Central Urban Bank has passed a resolution that it could lend money for a period of 10 years, it could be taken advantage of. But this period is too long for short period loans, and too short for long period ones. It will not appreciably relieve the situation that is becoming worse and worse day by day.

(2) There is no record of rights or of ownership in this Presidency. There should be one. The law of benami to which the lawyers and Courts are paying a superstitious reverence, should be modified to this extent, that is, once the benamidar is entered in the record, and he mortgages to the Mortgage Bank, no one shall be heard to say that he is the beneficial owner. Such is the law in regard to the negotiable instruments. But the record should be prepared after wide publicity; and a year's time should be given to the defeated party in the preparation to get it corrected in a Court of Law, subject to which the entry therein shall be final.

(3) In respect of simplification of procedure of realising mortgage loans, I would suggest that payments towards principal and interest should be recognised only when they are evidenced in writing, either by endorsement on the bond or by vouchers, e.g., when a promissory note without any endorsement of payment on the back is endorsed to a holder the promisor is not entitled to prove such payment against such holder. The mortgage bonds upon which the negotiable debentures are to be issued, partake the nature of negotiable instruments, or at least marketable securities. The ryots should be taught that they should secure a voucher; otherwise all sorts of frivolous "oral payments" will be put forth in defence the effect of which would be disastrous in the debenture market. Such a law cannot do more harm than sections 91 and 92 of the Evidence Act. They are merciless. Application to Court should only be for sale; no suit; and the Court should give a fixed period to pay; on failure the property should be sold.

(4) The working capital of the Mortgage Bank should be at first be derived from the Central institutions as they have now money, especially

the Madras Central Urban Bank can have overdrafts from the Imperial Bank. Later, debentures will come in for their share of working capital; as also deposits. Why not start capital by subscription of issuing shares? It will be better that Government guarantee interest at the initial stages, as was done in the case of Egyptian Agricultural Banks. After the first issue of debentures, the Egyptian Banks were able to issue fresh debentures without Government guarantee.

5. It is generally said that the indebtedness of the agriculturists in this Presidency amounts to about one crore of rupees. This can be ascertained with as much reasonable accuracy as possible through Co-operative Unions and Central Banks; in the Registrar's and Sub-Registrar's offices. About 50 per cent of the indebtedness is covered by mortgages. There is no Dekkan Agriculturists Relief Act in force in Madras Presidency. The debts are due mostly due to professional money-lenders and indigenous banks, such as the Hundial shop-keepers and Joint Stock Banks. In Urban areas where there are Co-operative Urban Banks the debts are becoming due to them mostly. I have already stated the various rates of interest charged; and even when compound interest is not stipulated in the bonds or promissory notes the Chettis charge compound interest at yearly rests in their accounts; and it is only in rare cases, when the matter goes to a Court of Law of course this is not allowed. This injustice is done in the great majority of cases, where poor persons are the debtors.

I do think that a large number of farmers are being turned into tenants for a period or at will, through the enforcement of old debts. The landed property passes into the hands of capitalist creditors. This does take away the incentive.

6. Some of the subsidiary industries I can suggest are, toys, coir-making, basket-making from bamboos, and palmyra leaves, which are very useful in packing things in retail shops; and palmyra leaves basket-making can certainly be introduced during times of unemployment of agriculturists. Handloom weaving comes next. Co-operative Banks must be made to finance it.

7. I would like to include debenture bonds amongst trustee securities under the Trust Act and of course it would encourage debenture loans if they are exempted from income-tax, in the same way as Government loan bonds are issued free of income-tax.

II.—Indigenous banking.

Indigenous banking as at present is without zeal or enthusiasm for agriculturists. Their only idea is to earn interests, simple and compound, without regard or pity to the ryot. A special law should be enacted that in the case of agriculturists, the law now existing in Travancore should be passed, that is that no Court of Law should pass a decree for interest, which is more than 50 per cent of the principal on the date of the plaint. Similar protection seems to have been given to borrowers even in England by the Money-lenders' Acts. At least the interest that can be realised in a Court of Law should not exceed the principal, on the date of the plaint. In my opinion it is the accumulation of interest that has been spelling ruin to the ryots. The law should fix a maximum rate of interest in the case of agriculturists.

7. There is no positive prejudice against indigenous bankers; but the people do not love them. They are necessary evils for the agriculturists and also for the export merchants, especially the Nattukottai Chetties, who have their branches in many places in India and Burmah and therefore cash hundis. They are sufficiently protected in law at present; and no facility need be given to them. Their dealings with their clientele are not conducted on sound lines.

I am sorry that I have not been able to answer the other points raised in the questionnaire, even within the extended time, even though I have specially studied the subjects. I should humbly request the Committee to take note of this fact that they should see to the recommendation of such banking system as will in at least 25 years wipe off the agricultural indebtedness.

The Reserve Bank Bill did not contemplate this; in fact, it excluded co-operative banks. The future Central Bank should not so exclude them. In other agricultural countries such as Ireland and Canada, the Central Banks have given great facilities to agricultural credit. I only pray that the Committee may do likewise.

**Written evidence of M.R.Ry. K. SRIRAMULU Avargal,
President, Guntur District Co-operative Bank, Limited,
Tehali.**

1.—Agricultural credit and credit facilities for small industries.

1. Agricultural conditions in this district (Guntur) are not uniform. They differ in different places. It is not possible to evolve correctly anything like a system from them. This district comprises 9 taluks, 6 of which are dry and 3 wet. Broadly speaking, the conditions in the former differ radically from those existing in the latter. The former depend completely upon the monsoon and the latter upon the Kistna Delta system. In the dry area, always two and sometimes three crops are raised in the year; in the wet area, only paddy is raised. In the former, a ryot owns in the majority of cases not less than 5 to 10 acres; while in the latter, a vast number own 1 acre or less. If the season is favourable, the farmer in the dry area has a bumper crop and the net income therefrom is twice, thrice and sometimes four times the income which his brother in the wet area is able to make. But the season oftentimes is not favourable so that his income is always uncertain and unsteady as compared with that of his neighbour, the wet cultivator. The person farming the dry land therefore does not, owing to sheer necessity, sell his crops of a favourable year but stores them for guarding himself against the misfortunes of an unfavourable year. The average delta ryot on the other hand does not and cannot store his produce but parts with it either as soon as the harvest is over or a month or two before the harvest time arrives, by entering into a forward contract with his sowcar who pays him a miserably low price for it taking full advantage of the necessity which compels him to sell it to him.

2. The above facts have an important bearing on the investment of capital upon land, its improvement, its cultivation and the circumstances always attending every one of them. In the dry taluks, except in very few villages, where the ryot population is either very dense or rich, large tracts of land are always available for sale at a not heavy price but even the neighbouring owners are not anxious to purchase them because they have enough land themselves. In the delta, generally, small strips of land also are not available and if there is the slightest rumour about a sale, people rush in, compete for it and purchase it sometimes for a fancy price utterly unmindful of the return that they are likely to get for the investment they make upon it. This rush is astonishing because the purchasers in most cases have no capital of their own but borrow it from the sowcar in the village or the Marwari in the nearest town on his own personal security or on the security of his property movable or immovable or on the personal security of himself and a friend or neighbour of his, at an interest which ranges from 12 per cent to 49½ per cent. The temptation for the ryot to purchase land adjoining his own holding is so overpowering that he cannot help doing it. He has no other occupation; he knows no other safe investment; he is conservative and least enterprising; and he has not the help of the Government to migrate to other lands safely and seek his fortune there.

Permanent improvements in the upland taluks mainly consist in sinking wells, repairing minor irrigation tanks and bringing waste lands under the plough. Here and there, we have cases of lift irrigation on a small scale undertaken by enterprising men at their expense. We have further the Atmakur Pumping Project conceived and executed on the basis of a joint stock concern. Permanent improvements in the delta taluks are (1) lowering the level of the land for rendering it fit for irrigation, (2) raising the level of the same to make it suitable for turmeric and sugarcane cultivation and garden plantation, and (3) excavating irrigation channels. Generally in all these cases, money is obtained only by borrowing from the village or the town money-lender as above stated at a heavy percentage of interest. The exceptional cases are few. If the land, which is sought to be improved, is small in extent, the owner leases it to a labourer for a certain period on condition that he will improve the land and compensate himself by appropriating the produce thereof for a particular period agreed upon by them. If the land sought to be improved is on the other hand large, the capitalist is given a share in it.

Cultivation expenses in a year generally are met from the proceeds of the previous year or by borrowing under a promissory note or bond with or without the security of property or under a contract to deliver paddy during the succeeding harvest season.

Other special needs too are likewise met.

The part played by Government or the Imperial Bank of India or the Indian Bank, which by the way is the only joint-stock bank that we have here, in agricultural finance is not very important. The only thing done by Government is to give loans under the Land Improvement Loans Act or the Agriculturists Loans Act. The local officers do not popularise the provisions of those Acts for fear that those Acts will impose additional burden upon them and their establishment. The few people that have known those Acts are afraid of the complicated machinery provided by them and are consequently scared away. The Imperial Bank and the Indian Bank are almost always resorted to by merchants who are not agriculturists and sometimes by persons who are agriculturists as well as traders. They do not help the agriculturist proper. They impose certain conditions in regard to repayment which render it necessary for their debtors to go to the Marwari or the village money-lenders periodically and borrow from them at an enormously high and usurious rate of interest.

The Guntur District Co-operative Bank of which I have the honour to be the President is the only institution which does any service worth the name to the agriculturist. It has primary societies in every important village and they come to 606 in number to-day. Its working capital is Rs. 24,37,545. Its interest is the lowest. Its rules of repayments are most favourable. It does not go to Court and expose its debtor to the expenses and hardships of litigation for recovering its dues. It gives short and long term loans. For such purposes as purchasing seed grain or manure, paying Government revenue, meeting cultivation expenses and the like, it lends up to one year always fixing the date for the repayment according to the capacity and convenience of the borrower. For such purposes as improving the land and discharging old debts, etc., it lends up to 5 years giving all possible facilities for easy repayment by instalments.

The defects in the existing banking methods are numerous. The Imperial Bank and the Indian Bank are not within the reach of the ordinary agriculturist. The District Co-operative Bank is not able to meet their demands. The village money-lenders and the Marwari usurers are a blood-sucking class of men, who employ most unscrupulously very ingenious methods to swell the small money that they lend into many times the amount in as short a time as possible to consume all the property of their debtors. The environment in which the average agriculturist lives is not such as would allow him to prosper.

The salvation of the agriculturists depends upon several things. First and foremost the demands upon him which put him to the painful necessity of approaching the village sowcar and the Marwari must be otherwise met. That can be done only by extending the co-operative movement to every village and by widening the scope of it. The agriculturist is in need of two classes of loans. The first is a short-term loan which is required for cultivation expenses, seed grain, land revenue, provisions between August and December and marriage expenses and the like. This loan he can repay in the following harvest season or a little later, according to the conditions of the grain market. The second is a long term loan which is required for discharging his old debts. This he cannot repay in a lump sum. He wants instalments and he is prepared to give his property as security for the debt taken by him. The Co-operative Banks, constituted as they are at present, cannot help him in this direction. It is therefore necessary that land mortgage banks should be brought into existence in every district as early as possible.

Secondly, agricultural implements, manures and seed grain should be supplied through the agency of the co-operative societies and the produce must be taken possession of and sold by them when the market is favourable without the intervention of middlemen. Out of the sale proceeds the societies should pay themselves the amounts lent by them and the balance, if any, should be placed at the disposal of the borrower.

Thirdly, the management of the primary co-operative societies is not in several places good. It must be committed to the care of honest and efficient men. Honesty and efficiency can be secured only by educating the villagers in co-operation and its principles. The villagers also require to be taught self-help and thrift. Total prohibition from intoxicating liquor should be made practicable. All this can be accomplished only by continuous and organised propaganda work.

Fourthly, the Usurious Loans Act should be so amended as to confer greater discretion upon Courts before which come cases of excessive interest for decision.

Fifthly, the Stamp Act also needs amendment. The penalty which is being levied upon unstamped or insufficiently stamped documents is not acting as a deterrent but is helping to swell Government revenue at the cost of the ignorant ryot; ten times the stamp duty payable upon a bond in addition to the stamp duty ordinarily leviable is not at all justifiable under any circumstances.

2. The principal crops in the district are paddy, tobacco, turmeric, cotton, chillies and groundnut. In most of the villages some of the rich agriculturists own godowns either in the villages if they are connected by good roads with towns or in the towns if there is not proper road communication to their villages and store produce of the following descriptions:—

1. Produce of their lands.

2. Produce agreed to be given to them in discharge of money lent by them previously.

3. Produce sold by a needy ryot who without selling cannot pay up land revenue and other demands upon him.

4. And produce which he purchases as part of his trading business in expectation of profit.

They ultimately sell it to the merchant in the town when the market is favourable to them. Barring these few rich men the rest sell their produce to the dealer in their village who does not and cannot pay the price at once but who takes it to his customer in the nearest town and sells it to him at a small margin of profit for himself and pays out of the sale proceeds the amount due to the agriculturists. The customer stores it and to enable himself to command funds for further investment in the purchase of goods, hypothecates the goods already purchased by him either to the local branch of the Imperial Bank of India or the Indian Bank. If that customer is himself a mill owner he will mill the paddy, refine turmeric and tobacco, shell groundnut and compress cotton and export the same to the largest trading centres in the country or abroad in accordance with orders received by him from those places. If that customer is not a mill owner he will either sell his goods to a mill owner or export raw goods to places where he has information that there is demand. These merchants and mill owners are required to pay the amounts borrowed by them to the Imperial Bank and the Indian Bank within a fixed time. If within that period they are able to sell the goods at a profit, they advise the banks concerned to receive the moneys due to them from their purchasers and release the goods pledged to them so that the purchasers may take delivery of the same. If they are not able to find purchasers they apply for time to the bank which is given as long as such dues and the expenses of sale and the godowns rent, etc., can be realised by sale of the goods pledged and which is refused as soon as that limit is likely to be exceeded. When extension is refused or when the customer is not able to obtain loans from the banks, he resorts to the Marwari merchant and borrows from him. The Marwari's interest is proverbially high. His normal rate is 22½ per cent here. It goes up to 34½ and 49½ per cent also sometimes. The number of Marwari firms and the extent of their operations are annually increasing in these parts and the wealth of the district is being drained year after year. Insolvencies are on the rise annually and litigation is so hopelessly out of hand that the establishment of additional courts has become and is becoming an unavoidable necessity.

The local market for goods other than cotton, tobacco and turmeric is still in the hands of the people here. In the case of cotton and tobacco it has either gone or is threatening to go away from them. The cotton

pressing mills in Guntur and the tobacco refining mills in Chirala are under the management of European capitalists who have widespread organizations by which they are enabled at all times to advance moneys to ryots in distant villages and capture their produce at low prices. Turmeric refinement and exportation has passed into the hands of the Marwari altogether. It is here that co-operative effort becomes absolutely necessary. If the ryot is to be made self-reliant and self-dependant, if the middleman is to be done away with, if money-lender's oppression is to be made to disappear, if the maximum fruits of his hard labour are to be secured for him, sale societies both in the village and the district centre are indispensable. If they are organized and efficiently managed there would be no need for forming pools. With a view to bring a network of such organisations into existence the co-operators in this district are trying to concentrate their energy and attention and as a preliminary to it they are anxious to popularise crop loans throughout the district with the help of the village societies. Necessary amendments in their by-laws have been and are being effected and every possible attempt is being made to crown them with success.

Internal remittances are made in several ways. They are effected through the local banks with the aid of remittance transfer receipts. They are also made by drawing hundis against the person from whom money is due in favour of the person to whom money is payable. Hundis are sometimes discounted locally and also sometimes sent to provincial centres for the purpose. They are purchased locally at a premium or discount according to the fluctuating conditions of the market for sending moneys to other places.

Railway receipts are the only documents employed in these parts for raising money during marketing.

3. Value of the land is governed by several factors. It depends upon—

- (1) the crop which it yields and its fertility;
- (2) the facilities it has for irrigation and drainage;
- (3) the distance from the village and the means of communication with it; and
- (4) the density of population in any particular locality and the resources of the people there.

Of all sales, private sale is the most profitable and fetches the largest price. Court sale comes next and Revenue sale comes last. Revenue sale is least known because it is least advertised. It is entirely in the hands of the village officers, who on account of self-interest sometimes and sympathy or identity with a party in the village at other times do not help the Revenue Officers conducting sales, who are ignorant of local conditions to sell lands for proper prices.

Dry lands in the district sell up to Rs. 800 and wet lands up to Rs. 3,000 per acre. Within the last two or three years the demand for them has however fallen.

4. There is no legal impediment to mortgage of lands. Owing to partition of the joint family property and the consequent subdivisions of lands into very small pieces sometimes measuring a few cents only and also the absence of registry in the village accounts for such small pieces, practical difficulties are oftentimes felt in mortgaging holdings. At present subdivision consequent on partition or sale of a portion of a holding is not obligatory. It is done on payment of a fixed fee, to save which people do not apply to the Revenue authorities for it. This difficulty will be overcome if the fee is abolished, if partition in the absence of a duly executed and registered partition deed is not recognised and if sale of portions in a holding is prohibited. Whatever advantages it may have it will be felt as an inroad upon the freedom of the farmer to deal with his property as he likes and is apt to create discontent and trouble.

There are no land mortgage banks in the district and there are also no banks providing long term credit excepting the District Co-operative Bank here which allows credit only for five years. As suggested above, it

is absolutely necessary to establish as early as possible a land mortgage bank for providing long term credit to the agricultural population in the district. It is equally necessary to establish such banks in districts in which they do not exist and to found a central institution in Madras to finance them. It is not possible to secure deposits for more than 3, 4 or 5 years and so land mortgage banks which may be established in the district centres cannot at all exist and thrive upon deposits. That is why a central institution is necessary to finance them. It is also necessary to issue debenture bonds. The Government should either guarantee interest or should take as many bonds as the district banks are able to sell to private individuals till at least it is established in men's minds generally that there is neither risk nor loss in that kind of investment. It is not easy to suggest the lines upon which a land mortgage bank could be established, especially when there is no practical experience of them here but by-laws printed at pages 158 to 169 of this year's edition of Hemingway's Co-operative Manual may, for the present, be adopted for organising and working them.

5. I am not aware of any estimate of indebtedness ever made or attempted to be made for even one village, not to speak of any district or province. Like the census it must be undertaken and done by village panchayats duly organised and educated for the purpose under the supervision of an expert committee of economists. I am therefore afraid that any statement on the subject cannot be accurate but I can, on account of my intimate knowledge of some villagers, the rural money-lenders, the Marwaris and the co-operative societies working amidst them, state with some degree of correctness about it that the economic condition of about three-fourths of the population of this district is extremely unsound and that it requires the stupendous effort of some generations in several directions to place them once more on a sound financial footing. The villagers, generally speaking, are indebted more to the professional money-lenders than banks and co-operative societies. The rates of interest charged by them, as pointed out by me already, are unconscionable and have brought about the ruin of many families. They adopt the Telugu calendar for calculating days and they do not omit in calculation the date on which the amount is repaid. They demand repayment anywhere and everywhere, abuse and mortify the borrower and put him to shame in ever so many ways, and if he has the courage to say anything in self-defence or do anything calculated to cause any the least annoyance to them or any other person in whom they appear to be interested for the time being, they at once rush to court and not only molest him with the heavy cost of litigation but also arrest him and attach his properties, movable and immovable, and persecute him till he is reduced to penury and forced to do some fraudulent acts and seek salvation in an insolvency court. I have known many people who were in affluent circumstances a decade or two ago and we have lost their all now, of course, partially owing to their imprudence but mostly owing to the machinations of the professional money-lenders.

6 & 6-A. Besides agriculture which is the mainstay of the people in the district, the following supplemental industries exist in a greater or lesser degree:—

- (a) Rice milling and flour making;
- (b) (i) Cotton ginning;
- (ii) Cotton pressing;
- (iii) Spinning by hand and machine and also weaving by hand, hand-loom and machine;
- (c) Shelling groundnut;
- (d) Extracting castor oil, gingelly oil, and coconut oil;
- (e) Rope, mat and basket making.
- (f) Manufacture of buttons, toys, paper weights, ornamental flooring slabs and table slabs;
- (g) Making boxes, chairs, cots, carts out of wood and steel;
- (h) Manufacture of beedi;
- (i) Shoe-making and tanning;

- (j) Manufacture of bricks, tiles and toys and pottery;
- (k) Manufacture of explosives and firework;
- (l) Manufacture of biscuits;
- (m) Manufacture of brass, copper and silver ware;
- (n) Fishing;
- (o) Dyeing;
- (p) Manufacture of perfumes and hair oils;
- (q) Manufacture of woollen blankets and rugs;
- (r) Manufacture of jaggery;
- (s) Manufacture of indigenous medicine; and
- (t) Poultry-farming.

Most of the above flourished once and supplied the needs of this and several other districts but owing to foreign as well as internal competition and exploitation under very unfavourable circumstances they have suffered immensely. Whole villages were busy manufacturing cloth of every variety and woollen rugs and blankets of several descriptions, only one generation ago. It was the depressed classes no less than the professional weavers that prepared them. Their numbers have fallen now. Dyeing at one time was the chief occupation of some people. It was done with the aid of indigenous drugs grown in the backyards of several houses in every village. The colours were fine as well as fast and cheap as well as easy. That has almost disappeared. The advent of kerosine oil at Rs. 1 and less per tin throttled the manufacture of castor oil. With the castor oil disappeared the artistic brass and copper lamps and their places have been taken by Dietz and Ditmar lights. Indigenous jars used for preserving pickles and other things have been superseded by foreign ones which have found their way into distant and out-of-the-way places. Enamelled goods have stamped out brass and copper ware. Cobblers, who used to supply the needs of every village, do not find occupation now. This state of affairs is entirely due to the dumping into the Indian market of goods by foreigners and the unfortunate results of it have been two-fold. Firstly, the Indian industries have been strangled. Secondly, the foreign articles, being always less durable than indigenous goods, are ruining the people economically. There is absolutely no justification for permitting the importation of flour, preserved pine apples, grapes and such other things into a country like India which has been rich in agriculture and horticulture. Hundreds of corn flour tins and thousands of myda bags and tins are coming into this district every week but no step is taken to stem their tide. The weapon of protective tariff so successfully used against the German manufacturer of beetroot sugar, for the protection of the European cane sugar manufacturer in India is allowed to remain idle in other matters which vitally concern the Indian peasant and manufacturer. We are living in an environment which is altogether foreign. We are made dependent upon other countries for the necessities of our daily life. This reflects very little credit upon the industrial policy of the Government. Unless the industrial problem is taken up by Government in a genuinely national spirit there is no salvation for this unhappy country.

I am afraid I have digressed from the subject on hand but it has become inevitable. For examining the rural economic conditions and for exploring the possibilities of industrial development, I would advocate the inauguration of a conference very much on the lines of the Mysore Economic Conference to be held periodically with a paid executive consisting of experts and divided into different boards placed in charge of different branches such as education, rural indebtedness, agriculture, industries and commerce, etc. As the conference proceeds with its work it will be able to devise means and methods by which industries can be encouraged and the producer enabled to get a better return for his produce.

Unlike the ryot in upland taluks whose hands are full with sowing one and at the same time harvesting another crop throughout the year, the farmer in the Delta taluks has, at the most, work only for four months in the year. The remaining eight months, the latter spends in law courts, gambling houses, theatres and other objectionable places wasting his fortune and health till he becomes morally, physically and economically bankrupt. It is absolutely necessary to reclaim him and show him some occupation. He can raise garden produce after cutting paddy. Some have been actually doing it. But there is not proper advice for them. He is afraid that if another crop is raised after the paddy is removed, the land would be rendered less productive and would not give him proper yield of paddy.

It may be true to some extent. The agricultural demonstrators appointed in the district are not able to satisfy them. The ryot does not want mere advice; he wants practical experiment. It is therefore necessary that every district should have at least one agricultural farm maintained by Government in which experiments of this and other kinds should be carried out and shown so that the ryot may learn improved and scientific methods of agriculture and horticulture.

There is another industry which requires attention. The tracts which have been hitherto considered unfit for any purpose are now demanded for growing groundnut which is exported after the shell is removed. It is said that the machinery required for extracting oil from groundnut can be got for a few thousands and that if that is got and oil extracted and exported it would be more profitable. It is also said that the vegetable ghee that is sent into this country from Holland consists of the groundnut oil, that it is used for other purposes also and that if oil is extracted it would give stimulus to other industries as well. That industry deserves encouragement.

The manufacture of bricks, tiles and other things is yet another industry which deserves careful examination. Like food and cloth they are essential because buildings are rapidly springing into existence everywhere, always. They are being imported from Mangalore, Madras and other places. It must be stopped.

Weaving and spinning are most important because they give work to man and woman of high and low classes and castes alike. Spinning is almost exclusively done by woman only. In my boyhood music of the spinning wheel was heard in almost every house in every village. That wheel is nowhere to be seen now. I would advocate State-aid to these industries and special legislation in that direction. From 25 to 50 per cent of the money required for investment should be granted by Government at not more than 6 per cent interest. For the amount so granted cash credit upon existing bank or banks established for the purpose should be allowed to enable the producer to draw money when required. Of the articles so manufactured Government should buy a portion according to its requirements. Other forms of assistance such as electrical energy where available, irrigation and other facilities where needed should be freely given. Income tax should not be levied for some years. Competition should be held and prizes awarded.

7. In our district there are no indigenous banks at all. The only joint stock bank which we have is a branch of the Indian Bank which is of a very recent origin. Our co-operative bank has an overdraft of one lakh of rupees upon the Imperial Bank. Competition does exist between one institution and another. The Imperial Bank with its huge organisation, efficient management, widespread branches and immense resources need not be afraid of competition and can therefore be more liberal towards the other banks, especially the co-operative banks.

The only difficulty which we have at present is not in regard to the short term but to the long term capital. Our deposits have never been for more than three years. The Madras Central Urban Bank which used to lend for ten years before has in view of the observations of the Towns and Committee cut it down to five years and we are therefore obliged to lend to the rural societies for not more than five years. This has caused a good deal of discontent among the co-operators in villages.

Of the 979 villages in the district only 498 villages have rural societies now. Those societies also have not enlisted all the people in the villages as shareholders. The amount we are lending is approximately Rs. 23 lakhs. According to the proportion of our lending to existing societies we require not less than one crore more of extra capital for our district for financing the co-operative movement.

II.—Indigenous Banking.

If no note has been added to explain indigenous banking I should have said there is none such in this part of the country but as individuals and private firms also have been brought under the category it has become necessary to deal with it. We have in each village individuals known as sowcars who do money-lending business. In towns we have mostly Marwari firms whose sole occupation in life is money-lending.

1. Rural sowerars and the urban Marwaris have no deposits. They lend their own moneys. They also borrow from others at a low rate of interest and lend at a high rate and make a profit by the difference. Some of the local Marwari firms are branches of bigger firms existing in Bombay and other places as in the case of Sir Kasturichand Hanumandas of Tenali, while others have transactions with bigger firms in other places. They therefore issue as well as negotiate hundis by charging commission. They also receive silver bullion and sovereigns in exchange for moneys due to them in capital cities and make profit by their sale in the local market.

2. The indigenous banker does not finance agriculture, trade or industry with a view to help it. On the other hand, he takes advantage of the pecuniary difficulty in which the farmer or the trader is and imposes his own conditions upon him in regard to interest, period of repayment and nature of security; provided his conditions are accepted he allows the money to remain with his debtor for any length of time until the sum due to him and the value of his debtor's assets find their level one with the other.

3. Most of the indigenous bankers have no organisations worthy of mention. Some of them have here and there one or two branches; some others have their agents in villages, who for a small commission or other help bring people in need of money to them—

(a) They invest only Rs. 50,000 to Rs. 3 lakhs.

(b) Their volume of business is great because they do not allow money to remain with any individual for more than 3 to 6 months. They collect and re-invest as often as they can.

(c) Their expenses are very limited. The partners themselves do everything. They have a clerk and sometimes a peon to assist them because they do not know the vernaculars here. Their expenses range from 20 to 50 rupees a month. They have nothing to do with the Imperial Bank or any other bank here. When the Imperial and other banks do not give their customers extension of time for repayment and when the latter approach the indigenous bankers, they again dictate terms deliberately taking undue advantage of the crisis in which those customers find themselves.

4. Their hundis are the ordinary bills of exchange payable at sight. Their other instruments are promissory notes which are invariably accompanied by what are termed "Hand letters" which are nothing but agreements fixing a period for repayment and stipulating an enhanced rate of interest from the date of default. They very rarely take mortgages because it would take them time for enforcing payment under them, but they take, instead of mortgages, the personal security of one or two individuals according to the amount lent. The security bonds are again described as "Hand letters". They contain the clause that they would pay the amount due by him on whose behalf they execute the letter if he should fail to pay the amount within the agreed time.

5. The indigenous bankers' methods of granting loans have already been described. They very rarely allow cash credits except to long-standing customers of undoubted solvency and approved honesty. we have no objection to pay the high rate of interest they demand and to the method of calculating interest which they adopt. The sowerars, over and above their own investment, if they want money to lend, borrow elsewhere at a low rate and lend at a high rate. That is the only method known to them. There are also some calculating people who to command funds convert their immovable property into money because they find that interest pays much more than lands.

6. Rates of interest in money have already been pointed out. When it is a question of paying back in kind it is worse. The agricultural population of less than average means find it difficult to maintain themselves and their families from the time of transplantation to the time of harvest because they exhaust their previous year's produce by the time of transplantation. They then borrow a bag of paddy on condition of repaying $1\frac{1}{2}$ or 2 times the quantity during the following harvest. It is this unfortunate borrowing that deprives them of their means from the transplantation to the harvest season.

These poorer classes should not be allowed to depend upon the village sowcar. Money must be made available for them through co-operative societies which should be organized in every village and conducted under an honest and efficient management. They must be taught thrift and provided with other occupation than agriculture because from September to December there are practically no agricultural operations. It is then and only then that the high rate of interest in the village will fall.

If co-operative organisations grow in number and in the extent of their usefulness, the standard of living of the average agriculturist is bound to improve in every direction. It will be possible for him to intensively cultivate his small holding in a scientific manner with up-to-date agricultural implements and manures.

7. The indigenous banker is as much despised as he is feared. His methods of lending and enforcing repayment not being clean, his clientele often come into a clash with him. There have been cases in which the money-lenders' conduct has led to crime of the worst type. There have also been cases in which the money-lender has sought the help of the executive and the judiciary alike. In spite of that it cannot be said that the facilities that he has got in law for self-protection are inadequate.

8. The indigenous banker may be brought into the co-operative society by education and persuasion. Otherwise, I am not in favour of the indigenous bankers at all. First, we have not got any scientific system of banking. Secondly, the indigenous banker is a sinner past redemption. Instead of trying to organize such banking and such bankers at a great sacrifice and cost, it is better that all the attention and money which may be devoted to that purpose, is utilised for the co-operative system.

III.—Investment habit and attraction of capital.

1. Banking resources have been few in this district. Railway and other cesses of local boards and toll-gate funds and of the municipalities form the largest nucleus for banking business at present; private deposits of individuals, abkari deposits, deposits of contractors and other businessmen also supplement it. It is not possible to exactly estimate how much would be required for this district. Roughly speaking, 2 to 3 crores of rupees would be necessary. Postal Savings Banks and the savings deposit branch in the co-operative, Imperial and Indian banks are the only institutions which encourage savings and investment habit. They exist only in towns but not in villages. So, villagers are very much handicapped in this matter. Their difficulties can be overcome by extending the scope and utility of primary co-operative societies.

Indian women, more especially Hindu women, unlike their European sisters, do not acquire rights in paternal property by birth and in husbands' property by marriage. They are therefore provided with ornaments by both so that during adversity she may make use of them. It is also the fashion of the Indians to bedeck themselves.

2. Postal Cash Certificates are not popular in this district because the majority are poor and can ill-afford to go in for them and also because the interest is low.

Savings banks do not afford possible facilities to all people because they do not exist everywhere. It is only officials, quasi-officials and others who get regular pay or other income and keep account with banks that resort to the savings banks. To influence other people to do so would require time and incessant propaganda.

3. No facilities are afforded by Government, the Imperial Bank of India or any other bank for purchase and sale of Government securities. Previously purchases were made through the Imperial Bank of India, which used to advance moneys at $\frac{1}{4}$ or $\frac{1}{2}$ per cent higher than the interest payable upon them by Government, obtain the securities in its own name and transfer them to the purchaser after full payment. That system has been abolished by the Imperial Bank. Government securities are of no use to the small agriculturists. Government securities as well as other securities must now be purchased in open market.

A great majority of the people of this district are not able to make both ends meet and so they have nothing to invest. Of those that can, the agriculturist invests his moneys in the purchase of land, the merchant in further extension of his business; landlords and others who get salaries or other fixed incomes in money-lending business and purchasing immovable properties.

The farmers lend to their fellow agriculturists on tolerably good terms at an interest of 9 to 15 per cent per annum. In a prosperous year the farmers invariably invest their moneys in purchasing additional landed property.

4. Cheque habit has not made much progress here. The reasons are that in the indigenous banking system there is not the method of cheque issuing at all. It is of foreign origin and like everything foreign engrafted on this soil. It is bound to take time. It is only people who can and do maintain deposit accounts or who have cash credit in banks that can issue cheques but not others. Government officials and others may be paid their salaries, etc., in the shape of cheques. The use of vernacular scripts in cheques in addition to English, I believe, will help to make them popular.

5. I support the view that banking and investment habit are of slow growth. The reasons are more than one. Firstly, there is the fear that it is not so good and safe as the investment on land or other immovable property is. Secondly, the terms of the banks in regard to lending and repaying are not suited to the average man because he knows no economy and no thrift.

It is not possible to persuade people in general to divert their surplus funds for purposes other than agriculture at present. The reason is simple. Industrial undertakings and joint stock companies have not had a prosperous career in these parts. The hosiery and cotton-seed oil mills at Guntur, the Carnatic paper mills of Rajahmundry and the Spinning and Weaving Mills of Bezwada and some of the rice mills in some of the villages of this district such as Tsundurn, Thurumella, Ponnur and other places have failed with the result that people are afraid that any investment of capital in enterprises of that kind is bound to be ruinous. Unless there is guarantee for interest and unless some institutions are brought into existence and worked at a profit, confidence will not be infused into the people. Propaganda by Government for the propagation of Government loans will, I am afraid, not be fruitful in that the interest obtained by investment therein is not such as would allure the ordinary man who is accustomed to 6 per cent rate in banks and 9 and 12 and 15 per cent rates in villages to go in for them. The Imperial Bank's branches have been helpful.

Replies to the supplementary questions.

Cheques, under the Negotiable Instruments Act as it stands at present, may be drawn payable to bearer and may also be negotiated payable to bearer. They have the additional advantage of being drawn and negotiated payable to order if the drawer so likes. Among the indigenous bankers cheques have not been popular in spite of the fact that they have been in existence since 1881. Hence a fresh type of instrument if brought into existence to-day by a legislative enactment will not equally be popular unless that type is one which has been known to the indigenous bankers and merchants for some time. Hundis are the only kind of documents which are known to them. It is, therefore, desirable to secure the legislation contemplated in the questions for hundis. Hundis may also be crossed like choques.

Written evidence of M.Ry. W. JEEVARATNAM PILLAY
Avargal, B.A., President, Co-operative Supervising Union,
Tiruvellore (M.S.M.Ry.).

I.—Agricultural credit and credit facilities for small industries.

1. For expenses during cultivation the agriculturist, if he is a tenant, borrows from his landlord or if he is a small landholder from his rich neighbour or from the professional money-lender, who in a village is generally one who keeps a bazaar and deals in provisions and other necessities of the villagers. He lends them small amounts of money and supplies them with all their domestic wants and purchases the produce charging interest in kind or money for the season ending with a harvest. The rate of interest varies with the person borrowing, ranging between 12 and 21 per cent and if it is in kind ranges between 10 and 20 per cent for the season. In these cases no security is given except an entry in the account books of the lender.

(b) For capital and permanent improvements the villagers generally borrow from a rich landlord, who, in addition to his owning lands, acts as a professional money-lender or he gets a loan from Government for the purpose of sinking wells, purchasing bullocks or putting up an oil engine for pumping water, for periods extending up to 20 years.

The rate of interest charged by the money-lender in these cases ranges between 9 and 15 per cent and the security offered is lands.

(c) For special needs the villager goes to the money-lender offering his land as security at a rate of interest ranging between 12 and 21 per cent.

Government finances the agriculturists for improvement of land, for sinking wells, for purchase of bullocks, etc., on an easy annual payment system.

Co-operative banks relieve to some extent the indebtedness of the agriculturist but he could not get the full benefit of co-operation.

Professional money-lenders, merchants and dealers generally finance all needy agriculturists but the rate of interest charged is so exorbitant that the net profit of his agricultural labour would be hardly sufficient to pay the rate of interest.

Defects.—The raising of Government loan though beneficial is beset with various difficulties for the villager. The only remedy seems to be that a special officer in the grade of Tahsildar should be deputed at least for the disbursements of loans when the loans are sanctioned.

There could not be co-ordination for the simple reason that the ruling factor in these transactions is personal interest and gain.

2. In the district, generally the individual dealer purchases produce from the agriculturists.

It is possible to pool produce for the market if (1) the villagers are sufficiently educated in that line, (2) if they are induced to produce the same kind of produce suited best for the market, and (3) if means were found to finance the agriculturists on the security of the pooled produce to meet their urgent demands.

The credit facilities would be about 75 per cent of the market value of the produce.

The present facilities offered by co-operative societies in the shape of short-term loans on the security of produce is quite inadequate. The amount advanced should be (1) irrespective of the borrowing power of the society and should be judged only from the value of the produce, and (2) sufficient safeguards must be arranged for evaluating the produce and securing the same so that there may be no risk of loss.

3. The value of land fit only for dry cultivation such as pulses, millets, etc., and which altogether depends on rain ranges between Rs. 100 and Rs. 400 per acre according to fertility, nearness to village, etc. If there is a well it enhances the value by about Rs. 100. If it is garden land fit for the growth of vegetables adjoining a city or town the value is still increased. For wet lands where paddy is cultivated in the wet weather and other cereals in the dry weather the value ranges between Rs. 300 and Rs. 1,500 per acre. This again depends on the following factors, fertility of soil, facilities for irrigation from a river, lake, or well, command of labour and the well-to-do condition of the agriculturists.

(a) In Government auction for non-payment of revenue, the bid will be for a nominal price for either the land will be unproductive, such as those which lie in the margin of cultivation or owing to the uncertainty of the sale, the owner would naturally pay off the revenue dues if the land is valuable within the time allowed. Hence this is no criterion of the value of land.

(b) In cases of court sale the land would almost fetch its current value except for the fact that the bidder because he could command ready money, keeps off others who are not in such favourable position or it may be only those who have a full knowledge of the title of the property or who take the risk of the litigation that obtain the property for a favourable price.

(c) In private negotiation generally the current market value of the property is obtainable.

4. I am not aware of any legal impediment for mortgage of lands. I am not aware of the existence of agricultural banks for long-term credit except those which have recently been inaugurated under the Co-operative Department.

Agricultural banks.—My suggestions are—

(1) They must provide long-term credit, say, from 15 to 20 years.

(2) The amount should not be less than Rs. 1,000, nor more than Rs. 5,000.

(3) The ownership and title to the property must be properly scrutinized and all parties interested in the property must be made to execute the mortgage deed.

(4) The net annual income of the property must be taken into account in advancing the loan.

(5) Failure to pay for two consecutive years should be one of the causes of action.

(6) The extent of jurisdiction must not be more than 15 miles. The directors should be men of means on whom the public can have confidence. Legal opinion must be sought in all doubtful cases.

I do not think that any measure for the record of rights and titles of property would override any judicial decision on the subject and hence every title must be judged on its own merits by competent men.

(b) Simplification of the process of foreclosure and sale is necessary in the interest of the mortgage banks but the directors of the bank should not be invested with such powers as there is likely to be abuse of such powers out of mere spite or personal grudge in the present state of societies in rural areas.

(c) The concessions now granted to co-operative societies should be extended to land mortgage banks.

The working capital of the mortgage bank should be met from debenture bonds for more than half and the other two sources must be limited to less than one-fourth of the working capital.

Till public confidence is created the Government must guarantee for the principal and interest. For this purpose the share capital of the members and the reserve fund must not be used as the working capital but must be deposited with a bank recommended by the Government.

Mortgage banks must raise money at not more than 5 per cent and lend to members at not more than 7 per cent.

6. Various industries are attempted but not with success, the chief reason being that the farmers are not aware of the market for their produce. The whole thing is managed by the middleman who carries away the major portion of the profit which should go to the farmer. Industries for which special facilities exist in certain localities should be encouraged by means of special instructions and by the formation of co-operative societies for that object, e.g., mat-making in place where *korai* grass is abundant; coir-making and fibre-taking in places where palms abound; dairy-farming in places where there are grazing facilities; and garden produce around cities and towns or where special facilities for transport exist. But handloom-weaving could be encouraged in all places. This I should think would supplement the income of the farmer in the off-season. Handloom-weaving should not only be encouraged where it exists now, but introduced in places where it is not known. In all these cases the principle of co-operation must be extended and applied with the necessary changes.

7. I am not aware of the existence of any relation between co-operative banks and other banks, except that the provincial co-operative bank and central banks are granted overdraft on the Imperial Bank. Long and short-term loans are not granted to the extent to which they are required. One reason is that the total borrowing power of a co-operative society is at present fixed at $\frac{1}{4}$ of the net assets of the members. Again the short-term loan is included in this $\frac{1}{4}$ and hence all the members could not avail themselves of loans. This is the chief reason for the panchayatdars of a society having between themselves the major portion of the loan of the society. One way out of this difficulty is to find out tests of the value of property mortgaged to the society and to exclude from the maximum borrowing power such amounts as have been advanced on the mortgage of lands. This would increase the borrowing power of a society without any risk of loss to the society.

With reference to short-term loans given on the security of produce, it must not have any relation to the borrowing power of the society or of the member, but must be judged from the market value of the produce, sufficient precautions being taken to secure the produce.

The capital that would be required for agriculturists in villages could be roughly estimated at twice the amount of the revenue kist of any village. This I think would be a safe criterion of the needs of an ordinary village.

I am of opinion that all concessions possible and feasible should be granted for the co-operative movement in view of the fact that co-operation and co-operation alone would bring salvation to the dumb millions of the country.

**Written evidence of M.Ry. S. NARASIMHAN Avargal,
Vice-President, Taluk Board, Nandigama.**

I.—Agricultural credit and credit facilities for small industries.

1. This taluk constitutes a backward area in the district. The agriculturists are, as a class, illiterate, and are guided by mere traditional practice and usage. The soil is generally poor, and water facilities are scanty. The agriculturist is of the hardhit in his attempts to obtain finances either for expenses during cultivation or other special needs occasioned by famine, failure of monsoon, etc. The only source of help he can count upon is the professional money-lender or the petty local merchant who charges exorbitant rates of interest ranging from 15 to 30 per cent per annum. Sometimes land, sometimes movable property, and often standing crops or jewellery are pledged for these loans, and in almost all cases, the debtor is not given a chance of repaying his dues in instalments. Wholesale clearance of the debt is often insisted upon to the serious detriment of the debtor.

• For some reason or other, very few people avail themselves of Government agricultural loans. It is highly desirable that loans of this kind are brought within easy access of every needy agriculturist, special instructions being issued for enlightening the poor villagers on the advantages of these loans, such as low rates of interest, facilities for repayment by instalments which naturally go to stimulate thrift and confidence. The agriculturist should be made to feel that a loan from Government involves no official worry, but provides on the other hand easy facilities or liquidation. The official formalities should be minimised and every one should be made to feel that a loan from Government is an easily accessible resource. Of late, a few co-operative credit societies have been started in the taluk and have been rescuing some poor people from the clutches of the professional money-lender, but the extent of relief now given is hardly worth mentioning at all, as the societies are few in number and their borrowing power is limited. Besides these, the people of the taluk have hardly any dealings with any other banks or other joint-stock organizations.

2. The agriculturist of the village is seriously handicapped even in the marketing of his produce. He is kept almost in ignorance of the actual market demand and is obliged to sell away his produce to the itinerant merchant who collects his stock and passes it on to the market. Cotton which is mainly an article of foreign export in this taluk is generally conveyed by the agriculturist himself to some ginning factory or other, where the intermediary merchant undertakes to weigh and stock the commodity either paying up the cost at a certain fixed price, struck for each day, or paying the agriculturist only an advance with the option of striking the bargain at any time he chooses, up to which he has to pay interest at 12 or 15 per cent on the advance, as well as rental for the produce stocked by him.

Merchants of this class who advance money on commodities stocked with them generally issue hundis or payment orders to merchants in other towns with whom they may have any pecuniary dealings.

There is yet another practice with regard to the marketing of agricultural crops. This is speculation. The needy ryot offers to make over a certain quantity of his produce at the time of harvest and fixing the price naturally at a very low rate, takes all the money beforehand and executes a jatti or contract to hand over the fixed quantity of the article at the prescribed time. Owing to unforeseen failure of crops or fluctuations in prices this mode of sale is often liable to litigation, costly and annoying to both the parties.

The formation of pools on a co-operative basis under Government control may afford a healthy remedy in this direction.

3. About 95 per cent of the land in this taluk is dry, the rest being irrigated either under the Munieru Project or under tanks. Wet land under the project sells at Rs. 400 to Rs. 1,500 an acre, while the price of dry land varies from Rs. 50 to Rs. 300. The price of land in private negotiation is slightly higher than in Government auctions or sales by court decrees.

4. There are no agricultural banks at all in this taluk. As regards safeguards in respect of property pledged or mortgaged, the borrower may be required to produce an encumbrance certificate in respect of land or other property mortgaged, or to establish his bona fides and credit by obtaining the approval of at least three other members of co-operative association who should also be held responsible for the proper discharge of the loans recommended by them.

5. Particulars in respect of the indebtedness can never be obtained with more than a fair degree of accuracy. Statistics relating to a few typical villages in each taluk may be obtained only after a detailed investigation.

6. The only industry allied or supplemental to agriculture which is worth any mention in this taluk is hand-spinning. The agriculturist generally takes to spinning whenever he is free from his regular agricultural occupations. More than the agriculturist himself, members of his household devote themselves to hand-spinning in their leisure hours, although the work is not sufficiently remunerative. But, considering the simple and pleasant relief which a work of this nature provides to the busy farmer, the industry deserves good encouragement. To improve this allied industry the villagers may be provided with improved spinning wheels and may also be helped in the sale of their yarn by organizing weaving work also, side by side. Financial help should be made readily available. The people of the taluk may also be encouraged in taking up garden work on a good scale. Practically, a beginning has to be made in this direction.

6 (a) Provision of loan for sinking of wells or other garden works, and the supply of water pumps on instalment system may afford a good impetus in this direction. Unless financial help is available at very low rates of interest, no improvement can be expected in this direction.

II.—Indigenous banking.

1. There are no indigenous banks worth the name. The merchants in some important centres receive agricultural produce from ryots and advance money to them on the security of the articles entrusted to them, but do not in any other sense act as bankers. They neither receive deposits, nor lend out money according to necessity.

4 to 7. The merchants who lend moneys on the pledge of agricultural produce handed over to them, charge various kinds of commission in addition to exorbitant rates of interest. The agriculturist being practically put to considerable worry and loss, there is serious prejudice against banking operations of this kind. The establishment of indigenous banks receiving deposits as a matter of course but paying a higher rate of interest than the postal savings bank would go a great way to promote thrift and to root out the general tendency to keep money idle, or to hoard it, or use it up for jewellery and other luxuries.

8. Bankers of this class serve no useful purpose and hence deserve little encouragement.

9 to 12. The Co-operative Department may organize a savings bank section, providing for a higher rate of interest than in the postal savings bank, and utilising the balances on hand for loans. Every such bank may be allowed credit in the local or nearest treasuries up to a certain extent about Rs. 500 to Rs. 1,000 according to the size and importance of the village, so that depositors may be sure of receiving their amounts either on demand or with a short notice.

III.—Investment habit and attraction of capital.

1. Banking resources in this part of the country are practically non-existent. The public have few or no opportunities for investment of their savings. Savings banks organized by the Co-operative Department are an absolute desideratum.

In the absence of such facilities people are tempted either to hoard their money or to invest it in gold and silver.

The economic advantage of money circulation or of joint stock enterprise has yet to be brought home to the mind of the average Indian.

2. Postal cash certificates do not seem to be popular in this taluk. The striking contrast between the high rate of interest which the village farmer pays to his creditor and the low rate of interest which may be realised from the cash certificates, is itself a strong factor besides the want of a post office in most villages in scaring away people from cash certificates as a form of investment.

3. In the hands of the average Indian, and much more in the case of the poorer classes, money mostly lies idle or is spent on unproductive business, or costly social functions such as marriages, or even wasted on intoxicating drugs and drink. Only a very small percentage of the people do understand and realise the productivity of money in circulation. A proper organization with a stimulus to mutual trust and sure chances of profit may draw moneys from various sources and make them available as 'working capital.'

There are several classes of itinerant beggars—such as Bairagis and Lambadis—who store their earnings, with some professional money-lender with facilities to draw their amounts in times of need. Money-lenders of this kind pay little or no interest to these people and charge high rates for the articles supplied by them, the only compensation for all this heavy loss being provided in maintaining "secrecy of investment." Such deposits are made on mere trust, there being no documents of any kind. Even these money-lenders do not turn their capital to any productive purposes but simply practice usury to great lengths.

In prosperous years, farmers no doubt lend their surplus moneys to their fellow agriculturists, but a majority of these loans are taken only for unproductive concerns—such as costly, gaudy celebrations and the like.

4. * * * *

5. Banking and investment habit in India is undoubtedly of slow growth either for want of enlightenment or for want of opportunities and facilities. Government may carry on active propaganda in respect of loans at low rates of interest for productive concerns of all sorts and may even organize certain specimen industries and joint-stock enterprises under direct Government control and with Government guarantee, by way of an example, until the people realize by experience the advantage of setting about their hoards in active circulation. Help or propaganda of an indirect nature may be of no avail in a country where literacy is so hopelessly poor.

**Written evidence of M.Ry. Rao Sahib T. S. KACHAPIKESA
MUDALIYAR Avargal, B.A., Dubash, The South Indian
Export Co., Ltd.**

1.—Agricultural credit and credit facilities for small industries.

Banks and Industries in India.—There has been a great cry for the development of industrial banks in India ever since the Industrial Commission submitted its report. Industrial banking requires large-sized banks with great resources. What is far more important, if our banks are to finance national industries, they must be in intimate touch with our national industries.

Industries in India are very much handicapped by the more or less complete absence of a system of industrial banks. What is wanted in India is not a series of unconnected banks but a central industrial bank with a large number of holdings and branches.

An industrial bank in India should, as far as possible, distribute its funds over a large number of interests instead of its concentrating on a single interest or a group of financially inter-dependent businesses. The chief factor of safety in an industrial bank is to be seen in the judicious limitations of every class of business to its proper proportions. There must also be minute scrutiny of loans on plant, machinery, buildings and land and the limitation of loans, as far as possible, to the provision of working capital. An industrial bank must, to a certain extent, take part in the management of the central business. The bank should not try itself to float companies though it may advise and help others who propose to do so. The bank should provide the initial capital of a proposed company. As we all know, many carefully thought-out schemes are unable to mature as practical propositions owing to the absence of the financial resources at the start. In this connexion the example of Japan is appropriate. In the case of the Industrial Bank of Japan 5 per cent dividend for five years was guaranteed to the shareholders by the Government of Japan, of course laying down conditions as regards the objects on which the loans of the industrial bank are to be spent. This example of Japan might well be copied by our Provincial Governments. As we are aware during the latter half of the 19th century our railway and irrigation expansion was mostly due to the "Guarantee" system of dividends granted by the Indian Government to foreign shareholders who had invested in irrigation undertakings.

Now, one of the chief defects of the Indian banking organization is the more or less complete absence of co-operation between industries and banks. The subject of co-operative agricultural finance has of late been much in the air. We should not forget the need for industrial finance in that cry.

**Written evidence of M.R.Ey. S. SAMUEL PILLAI Avargal,
Revenue Divisional Officer, Ariyalur.**

1.—Agricultural credit and credit facilities for small industries.

1. (a) *Expenses during cultivation.*—The agriculturists in these parts in the generality of cases obtain short-term credit accommodation from local co-operative societies, wherever existing, or private money-lenders on a demand promissory note, such amount being repaid immediately after the harvest is over. In these cases, amounts are being raised also from among the agriculturists themselves in the locality or in the neighbourhood, not to speak of amounts obtained from the nearest Nattukottai Chettis and other private money-lenders. There are also places where middlemen traders advance credit to agriculturists so far as commercial crops such as groundnut, cotton and tobacco are concerned but on an understanding that later on the produce is to be sold only to such men. This is very common in the villages of this division.

(b) *Loans for capital and permanent improvements.*—Credit facilities for capital and permanent improvements such as repairs of land, sinking of wells and purchase of lands are obtained in the generality of cases—

- (1) by obtaining takavi loans from Government;
- (2) by raising long-term credit from co-operative societies for periods ranging from five to ten years and for amounts not exceeding Rs. 500; and
- (3) from private money-lenders under unfavourable terms.

(c) For failure of monsoon and payment of land revenue he either invariably disposes of his cattle, if any, with him or goes only to the private money-lenders. He does not at all get any accommodation in the co-operative societies; his fields do not yield; he has no other occupation to supplement his income. Consequently, he has no source of income even to meet his recurring family expenses. He therefore defaults to pay his due to the society and the society in its turn defaults to meet the obligation of the central bank. Loans are therefore denied by the central bank to the primaries and again by the primaries to their members. For payment of land revenue, besides disposing of cattle he pledges jewels and such produce if any on hand. Payment of kist by loans from co-operative societies is seldom resorted to in these parts. Except in co-operative societies loans are generally issued for a period not exceeding two years in case of mortgage loans and in other cases on demand promissory notes, the amounts being repayable with interest immediately after the close of the harvest. In the excepted cases co-operative societies issue loans for periods ranging from five to ten years but this kind of loans does not reach all the agriculturists but reaches only a fringe of the population. The rates of interest range from 18 to 36 per cent in the case of all loans particularly small amounts on demand promissory notes and about 18 to 24 per cent on jewel mortgage loans, and 12 to 18 per cent in the case of mortgage loans exceeding the sum of Rs. 500. These are common in parts of Udayarpalayam taluk towards south-west, east and particularly in the T. Palur firka. In parts of Perambalur taluk credit at a somewhat lower rate appears to be raised among the Reddi community. Failure of payment of interest entails compound rate of interest. In case of the jewel loans, defaults are being penalised by the forfeiture of the jewels pledged.

The security generally offered is either land or personal and varies according to the person taking the loan and the place where his lands are situated, consideration being had to the fertility of the land. The rate of interest on loans advanced by private money-lenders on standing crops is generally between 12 to 18 per cent, especially on crops like groundnut and tobacco. Besides the rate being high, crops are secured by money-lenders at cheaper rates, generally 30 to 40 per cent less than the prevailing market rate.

Agencies accommodating credit.—There is no help from the Imperial Bank of India and joint stock banks in this division. In fact, there are no joint stock banks at all. Government help the agriculturists by the grant of takavi

loans. Indigenous banks and bankers and professional money-lenders play a prominent part in the distribution of agricultural credit. Merchants and dealers help the agriculturists by advancing loans on standing commercial products such as groundnut, tobacco, cotton and chillies. The help derived from co-operative organizations is far too inadequate to cope with the demand of the agriculturists. Besides these, there are no other organizations giving credit.

Estimate of credit required.—It is impossible to give any estimate of the credit required. But out of 206 co-operative societies working in this division, the total working capital comes up to Rs. 12 lakhs; but this has touched a very small proportion of the population.

Defects in the present system with remedies.—The defects existing may be broadly classified under the following heads :—

- (1) Various rates of interest, especially on small amounts.
- (2) Chronic indebtedness and consequent default which ultimately leads to litigation and further heavier debts.
- (3) Disability in having to sell at unfavourable rates produce inclusive of standing crops by previously obtaining credit accommodation to meet emergent cultivation expenses.
- (4) Emergency for the loan leading to payment of a higher rate of interest and pledging large extent of properties, defaults in such cases entailing in forfeiture of property by the capitalist reducing the borrower to nil.
- (5) Want of sympathetic outlook and timely help on the part of the co-operative societies in helping the agriculturists to the required extent to enable him first to free himself from chronic indebtedness and secondly to give him short-term credit at all times of need.
- (6) The only remedy appears to be through co-operative organizations by their affording long-term cheap credit to relieve the agriculturists from chronic indebtedness and clutches of the money-lender and affording them short-term credit facilities at all times of need. Side by side, besides general mass education, education on improved methods of agriculture and marketing of produce should be provided for. The suspicious character in the agriculturists should be removed by intensive propaganda. Loans should be freely advanced on the pledges of standing crops under raw products; middlemen traders should be eliminated; joint marketing of produce and selling it at favourable rates may seem to be convenient methods. It does not appear that there is any co-ordination among the various agencies affording credit. There appears to be a narrow outlook on the part of money-lenders that co-operative societies are their rival organizations. There is scope for improving the present situation.

Issue of takavi loans should be completely stopped and credit diverted through land mortgage banks which afford long-term credit. There should be at least one primary land mortgage bank in each taluk headquarters. It should be able to accommodate the agriculturists to wipe off his indebtedness to the last pie. Repayments towards this class of loans should purely come out of the savings. Besides these there ought to be at least one co-operative credit organization in each village to provide for short-term and intermediate credit. Government help should be freely extended at least for some years to come to land mortgage banks by purchasing debentures with a view to create confidence in the minds of the public and as a guarantee of efficient organization and administration of such land mortgage banks. The Taluk Revenue Officers should have voice in the management over taluk land mortgage banks. Strict discipline in primary societies which is lacking at present should be enforced to prevent malpractices. Confidence in the estimation of the public should be created and then alone investments in such organizations may be freely expected.

2. Principal crops are being either carried away by the producer to important commercial centres and sold to middlemen traders or brokers go to villages and obtain products. Besides this, there is no organization of any kind for marketing the principal crop in the division. There should be a central organization at least in each taluk headquarters to purchase raw product, not merely to grant loans on the pledge of the products. Central organizations should be formed to connect the consumer with the producer and to eliminate the middleman trader.

3. *Value of land per acre for different kinds of crops.*—In Jayankondan taluk the value of single crop wet lands in which paddy and sugarcane could be raised ranges from Rs. 500 to Rs. 1,000 per acre and the value of double crop wet lands ranges from Rs. 1,500 to Rs. 2,000 per acre. In the case of dry lands, lands in which produce could be raised can be estimated between Rs. 500 and Rs. 1,000 per acre and lands which are good for cultivating groundnut can be estimated between Rs. 400 and Rs. 800. But lands which are fit for raising staple food-grains of poor people such as cholam, kambu, varagu and ragi and other crops such as gingelly, etc., could be valued between Rs. 100 and Rs. 300 per acre and sometimes even below Rs. 100 per acre. There are some dry lands on which rain-fed paddy is grown and they fetch a price between Rs. 300 and Rs. 500 per acre.

The value of lands largely depends upon the nature of the soil, situation and irrigation facilities.

(a) Lands are sold for arrears of revenue for a low price as the lands are usually poor in quality.

(b) If there is no collision between debtor and creditor the value of land sold in court auction is always reasonable.

(c) The value fixed is always reasonable unless the purchaser shows reduced price to avoid enhanced stamp duty.

4. There is no legal impediment to mortgage of land and agricultural holdings.

(b) In the event of non-payment of debt powers should be given to the mortgage bank for the sale of the mortgaged properties in public auction without any resort to the civil court as it is expensive.

(c) The present rate of search fees in the Sub-Registrar's office is very high.

The working capital of the proposed mortgage bank should be derived for the present by issue of debenture bonds or funds from central institutions.

The debenture bonds must carry Government guarantee for both principal and interest at least for some time, i.e., till the public gets confidence in the good working of the bank.

Measures to secure Government against unnecessary loss—

(1) the audit of such an institution should be done by Government servants ;

(2) the reserve fund of the institution should be invested in Government security and it should not be withdrawn without the permission of the Government ; and

(3) better scrutiny of the security of the properties mortgaged to the bank by responsible Government officers.

The rate of interest for the money raised should not exceed $4\frac{1}{2}$ per cent per annum and the lending rate should not exceed $6\frac{1}{2}$ per cent per annum.

Branches of Imperial Bank and progressive joint stock banks also may be opened at each taluk headquarters for issuing long-term credit and proper security.

5. In order to devise measures for the increase of credit facilities to the agricultural classes it is quite necessary to get an estimate as accurate as possible of the existing indebtedness of the class

The estimate of such indebtedness can be obtained by examining the documents in the Sub-Registrar's office in the case of mortgages and through private enquiry by village officers in the case of other debts.

The main purposes for which debts are incurred in this area—

(1) Payment of earlier debts ;

(2) Marriage and other ceremonial functions ; and

(3) Growth of debt by compound and higher rates of interest, interest not having been paid.

The debts are largely due firstly to private money-lenders, secondly to co-operative credit societies and thirdly to Government towards *tabasi* loans.

The rate of interest charged by the private money-lenders range from 12 to 36 per cent, by co-operative societies $8\frac{1}{2}$ per cent and in the case of overdue debts 12 $\frac{1}{2}$ per cent and by Government $6\frac{1}{2}$ per cent.

For the Government loans and loans from co-operative societies interest is calculated on the outstanding principal only and not on interest.

But by the private money-lenders interest is calculated annually and added on to the principal and again interest is calculated on both the principal and interest, i.e., calculation of compound interest. To Government and co-operative societies the loans are repaid in easy instalments according to the capacity of the borrower but in the case of private money-lenders they generally enforce the repayment in a lump sum.

Yes. Large number of people who are efficient are being turned into tenants at will through the process of the enforcement of the old debts and the landed property passing on into the hands of the creditors.

Since this process is going on it takes away from the actual cultivator the incentive to produce more and in an efficient and better manner. As soon as the debt swells he is not inclined to look after his agricultural work. It is the main reason for the deterioration of agriculture in this area.

6. There are no subsidiary industries in these areas except handloom weaving in some parts of this division. There are no garden produces in this area. Wells may be sunk and garden produces may be encouraged.

7. There is no relation between co-operative bank and other banks. Helps are being derived from the Imperial Bank by indigenous bankers such as Nattukottai Chettis. The Imperial Bank allows a small amount of loans to the co-operative central bank by way of overdraft.

The co-operative societies in this area are not able to get local deposits. They will have to wait upon the central co-operative bank if they want any loan.

There is no competition in this area between co-operative bank and joint stock banks as there are no joint stock banks.

II Indigenous banking

1. The indigenous bankers do no other function except advancement of loan to agriculturists.

4. There is no hundi system in this area.

5. There is no such transaction.

6. The rate of interest either in money or in kind ranges from 12 to 36 per cent per annum.

By organization more co-operative societies and land mortgage banks can be opened. The rates of interest will then be brought down. Each village must have a co-operative society and at least there must be a land mortgage bank for one taluk. The reduction of such rates of interest certainly confer great benefits for the agricultural community.

7. There is no prejudice against the indigenous bankers. The dealings of this class of bankers with their clients are not conducted on sound lines. They never give credit properly for the amount repaid by the clients and never issue receipts for the amounts received.

9. The net return to the indigenous banker after all the expenses and losses will come to nearly 10 per cent though the rate of interest is very high.

10. Sometimes the indigenous bankers are obliged to refuse on account of insufficient security and sometimes for want of funds.

III.—Investment habit and attraction of capital.

1. There are no other banking resources except co-operative banks. It is impossible to state the additional capital required without knowing the indebtedness of the people. The institutions that are in existence are the co-operative societies for encouraging saving and investment habits. Generally in villages people invest in private chit funds created among themselves. The public is provided with full facilities in making investment in the co-operative institutions but they do not realize the advantages of the same.

2. Postal Cash Certificates are not popular in this area.

3. *Provisos 3 and 4.*—Landowners purchase lands, jewels and keep money in cash at home. Sometimes they improve their live-stock with the income they get. At times they lend small sums of money for interest to neighbours. Traders invest money in their business, build costly houses and purchase lands.

4. Private cheques are not used in these parts.

5. Banking and investment habit is of very slow growth in these parts. This is due mostly to want of education and lower rate of interest paid for deposits. Increased rate of interest, banking facilities and educational propaganda may go a great length in bettering the situation.

**Written evidence of K. HASHIM SAHIB Bahadur, Revenue
Divisional Officer, Trichinopoly.**

1.—Agricultural credit and credit facilities for small industries.

1. (a) For expenses during cultivation ryots generally raise small loans locally and pay interest mostly in kind as soon as the crop is harvested.

(b) For capital and permanent improvement the ryots generally apply for Government loans and raise also locally.

(c) For other special needs such as failure of monsoon, for land revenue, etc., they generally raise loans locally. The interest charged outside ranges from 9 to 15 per cent since money market is tight.

3. The value of land per acre is fluctuating and it depends mostly on the outturn it gives. It also varies with reference to irrigation facilities and the minimum rate per acre of wet land is Rs. 2,000 and Rs. 10 to Rs. 100 per acre of dry land in the dry rainless tracts of Iluppur firka. The sale in Government auctions for arrears of revenue or under court auction generally fetches less than the market value owing to restrictions imposed for sale in these cases.

As regards loans to agriculturists there was some demand immediately after the floods of 1924 but now the applications are not many in the taluk.

I have no other remark to offer.

Written evidence of M.Ry. R. SIVARAMAKRISHNAN.
Avargal, I.C.S., Revenue Divisional Officer, Karur.

1.—Agricultural credit and credit facilities for small industries.

1. (a) Nearly 75 per cent of the agriculturists raise money by borrowing either from middlemen to whom they are going to sell the crops later or local banks of which there are three in Karur on pledging jewels or from co-operative societies (to a small extent) or from professional money-lenders.

(b) Money is raised by *takavi* loans or from co-operative societies or from private borrowing on the security of the lands. The last-mentioned tendency is losing ground.

(c) Money is raised by borrowing from professional money-lenders or local bodies or co-operative credit societies in the case of payment of land revenue to a small extent.

In the case of loans raised from local banks which is mainly on the pledge of jewels the rate of interest is between 7½ to 9 per cent. The period is one year.

In the case of loans raised from co-operative credit societies the rate of interest is 9½ per cent on the security of lands. The period of repayment ranges from one year to ten years.

In the case of loans raised from middlemen which is granted on promissory notes and on a promise to sell the crops to them the rate of interest is 12 per cent. The period of repayment is a few months.

The rate of interest charged by professional money-lenders varies from 12 to 24 per cent.

The Imperial Bank of India or joint stock banks play no part in the taluk. The part played by Government is little. Roughly the part played by the various agencies may be put down as follows:—

	PER CENT.	
Indigenous banks or bankers	35
Co-operative societies	40
Professional money-lenders	15
Merchants and dealers	8
Government	2
Total	100

Between 8 to 10 lakhs of rupees.

The defects in the present system are—

(1) Local indigenous banks do not lend money on the security of immovable property.

(2) Raising a loan from the co-operative society involves delay and it is limited by the allotment available.

(3) The exorbitant rate of interest in the case of loans raised from professional money-lenders.

If the Imperial Bank comes in the market and advances loan and that on moderate interest, it will help the situation very much. There is no co-ordination among the various credit agencies including Government and there is much scope for improvement.

2. In 75 per cent of the cases the produce is disposed of to the middlemen in the village itself. In other cases the agriculturist takes the produce to the merchants and dealers in Karur, keeps the goods in the warehouse of the dealer and disposes of them through the dealer who gets his commission.

There is much scope for marketing produce on a co-operative basis in this taluk. Co-operative effort in this direction is entirely lacking.

No information about foreign trade is available. Banks and bankers at present play no part in marketing. Merchants and dealers construct warehouses in which they permit the agriculturists to store their products till

they are disposed of. No rent is charged but the dealer gets his commission. Excepting the postal money order system there are no facilities for internal remittance. No part is played by negotiable instruments in the internal trade of this taluk.

There are no hundis current for the agriculturist. It is the middlemen of the merchant who sells the goods. The Government can assist by starting co-operative societies for the marketing of the produce.

3. The value of lands on which crops such as plantains, betels and sugarcane can be raised is generally Rs. 3,000 an acre; lands on which paddy is raised is estimated at Rs. 2,000 an acre. Manamari dry lands can be valued between Rs. 50 and Rs. 100 an acre. Garden land can be valued at Rs. 500 an acre on an average.

The main factors are water-supply and drainage facilities. Lands in villages in the upper reaches of irrigation channels are more valuable than lands in villages in the lower reaches and in the tail end of the channel.

(a) Valuable lands are rarely sold for non-payment of revenue.

(b) Value of land sold in court decree is determined by the encumbrance on the land, possession expenses, etc.

(c) The prices given above are of lands sold by private negotiations.

4. There is no legal impediment to mortgage of land and agricultural holdings. There are no land mortgage banks in the Karur taluk.

I have no suggestions to make to improve the record of rights.

If the working capital of the mortgage bank is derived from deposits it will be better. Unless debenture bonds carry Government guarantee, they will fail.

5. No accurate estimate is available so far as I know. Local confidential enquiry can be made of a few typical cases in a few villages.

6. The subsidiary industries in this taluk are—rice milling, groundnut decorticator, garden produce and hand-spinning.

Hand-spinning and garden produce are the main subsidiary industries which can be encouraged by granting small loans and by forming central co-operative stores for marketing them.

6-A. Many remarks apply to weaving and metal industries.

7. I have no remarks to offer.

II.—Indigenous banking.

1. There are indigenous banks in Karur all registered. The kinds of business transacted are—

(1) They receive deposits, fixed, current, seasonal and monthly, and also monthly savings fixed deposit.

(2) They issue loans on jewels, goods (including agricultural produce) surety and special loans on individual security.

2. Roughly it may be stated that the extent of help given by the indigenous banks is about 35 per cent of the requirements.

3. (a) The capital invested in the three banks may be estimated at an average between 2½ to 3 lakhs of rupees in each bank.

(b) They help trade and agriculture chiefly and say, ¾ of the business of the taluk is carried on with their assistance.

(c) The expenses of each of the three banks is Rs. 4,000 per annum.

(d) There is no co-ordination between the local bank and the co-operative society.

4. There are no hundis in these banks so far.

5. They grant loans for a period of one year on jewels, on goods (mainly on agricultural produce), and on sureties. The loans may be repaid in instalments or in a lump sum. The rate of interest allowed is 6½ to 9 per cent on the security of jewels, 9 to 10½ per cent on the security of goods, 12 to 13½ per cent on sureties, and the interest is payable monthly on pain of penal interest in the case of default.

The local banks have started business on shares, paid-up and subscribed. They also receive the various kinds of deposit as stated above.

Interest allowed on deposits are—

- 6 to 7½ per cent on fixed deposits.
- 3 to 4½ per cent on current deposits.
- 7½ to 9 per cent on seasonal deposits.
- 6 to 7½ per cent on monthly deposits.
- 6 to 7½ per cent in the case of monthly savings fixed deposits.

6. The rate of interest paid by the agricultural community is 9 to 10½ per cent where payments are made regularly, i.e., on due dates. In the case of default the rate of penal interest comes to 22½ per cent. If the Imperial Bank finances the local bank at a cheap rate of interest, the interest could be reduced. The Government should intervene and reduce the rate of penal interest. The reduction of interest will certainly confer great benefit on the agricultural community.

7. There is no prejudice against local banks in this taluk which are conducted on sound lines. If there is more co-ordination between local banks and co-operative societies, it will be a great help.

8. The answers have been given already; so far as I can see, the indigenous banking community are likely to welcome measures for regulation and publicity.

9. The rate of dividend declared to shareholders after providing for the reserve fund is 12 per cent on an average.

10. When working capital is found to be insufficient, seasonal deposits are raised and on the whole all demands for accommodation are met. In rare cases accommodation is refused or full accommodation is not given on account of unacceptable security.

11. The formation of local banks with local directorates is not likely to be a business proposition. Central reserve bank at district headquarters will compete adversely with local banking unless the business of the central financing body is restricted only to giving deposits to local banks at a lower rate of interest than that now paid for deposits.

12. No money is locked up with indigenous banks in Karur. I do not think that any large amount of money is flowing to provincial capital.

13. By restricting the number of banks and establishing them on sound lines money can be made to benefit the district.

III.—Investment habit and attraction of capital.

1. In this taluk the existence of three local banks affords sufficient facility for investments of savings. These facilities can be improved by opening branches in convenient central villages. The tendency to invest in silver and gold still persists to a large extent.

2. Postal Cash Certificates and Treasury Bills are not popular in this locality. More publicity is required.

3. There are now no local facilities for sale of Government securities. I am not in favour of granting special facilities to small agriculturists to take up some form of Government security.

There are no facilities for purchase and sale of securities other than Government securities. Generally in ninety per cent of cases people keep the money with them in their houses to meet expenses which are generally over and above the money received. Where people can spare money the tendency is to lend privately. The tendency to deposit in banks is gaining ground. Surplus money in a prosperous year is invested in the purchase of fresh land or in improvements of various kinds for agricultural purposes.

4. I have no information.

5. Banking and investment habit is of very slow growth. The real cause is want of education. With more support and encouragement from Government, there will be more local banks. Where local banks are run on sound lines, they do attract savings. There is need for greater village propaganda by means of lectures to attract Government loan.

I have no information regarding the result of the opening of new branches in recent years by the Imperial Bank of India.

**Written evidence of M.R.Ry. C. DORAIRAJ Avargal
Revenue Divisional Officer, Muesiri.**

1.—Agricultural credit and credit facilities for small industries.

1. The agricultural operations carried on in this division are all on a very small scale and the agriculturists carry on their business with their own money or with some borrowed money from their neighbours on condition to repay them as soon as the yield is obtained. Only for purchasing cattle and improving the lands they take loans from Government and co-operative societies to the extent of Rs. 100 to Rs. 500 generally. For the installation of oil engines a very few ryots have taken Rs. 1,000 to Rs. 2,000. The interest charged by Government amounts to $7\frac{1}{2}$ per cent and while in the co-operative credit societies it is about 9 per cent, the private banks charge interest from 15 to 24 per cent. The agricultural work being on a minor scale with each individual, it is not likely that they would require any appreciable amount and so it is not possible to frame an estimate of the total amount of capital required for agricultural purposes. They are raising the loans temporarily for their purposes from the local bankers and money-lenders on simple bond with one or two sureties. They execute the bonds on the security of their lands only when the amount is large or when the loans remain in arrears accumulating with interest. Owing to the failure of monsoon for the last seven or eight years the agriculturists did not thrive well and they find it difficult to repay the debts. Consequently the amounts are to be recovered through the court of law and coercive processes. If the absence of proper monsoon there is no scope to get out of the difficulty.

2. The marketing of principal crops also is not on any large scale in this division. Agriculturists reserve their surplus stock with them, take it to the business centres such as Trichinopoly, Manachanallur and Nainamalai in Namakkal taluk and dispose it of for a small gain. There are no merchants or big firms in this division having the monopoly of marketing all principal crops. The brokers purchase the crops such as cotton and groundnut in the villages and they take them to the merchants at Trichinopoly where they dispose them of then and there. Practically nothing is stocked to an appreciable quantity in these parts. All transactions take place only by making payments in cash. No kind of bills is prevailing. The remittances between the traders in India and Ceylon are carried on by hundis to a small extent. The above hundis are cashed at the local bankers at Trichinopoly and Tiruairur on discount system. Some merchants send the railway receipt by value payable post and get their money by postal money orders. If any licensed warehouses are established under Government control, it will no doubt be useful to the public.

3. The wet lands under river channels are being sold at Rs. 1,000 to Rs. 3,000 and those under tanks and anicuts at Rs. 500 to Rs. 1,500. The price of land varies according to the fertility of the soil, irrigation facilities and proximity, etc., to the inhabited nattam. The lands for cultivation of betels, plantains, etc., are most costly, next comes the land fit for single-crop cultivation only. The lands under tanks where the supply of water depends entirely on rain are naturally sold at a lower rate.

The lands which are sold in Government auction for arrears of revenue are very few and they are only dry lands which are mostly not cultivated. They are sold only for a nominal price, just to cover up the Government dues. The value of lands at a court sale also does not fetch the full market value. Owing to the straightened circumstances of the judgment-debtor, nobody comes forward to help the debtor and the decree-holders are bidding the lands at a low price, i.e., at half the market rate. The purchase by private negotiations effects the sale at a decent price according to the market rate.

4. There are no legal impediments to mortgage of land and agricultural holdings in this division. Land mortgages are accepted by private money-lenders, co-operative societies and joint stock companies, but no long term

credits are allowed. Loans are made payable within a short interval ranging from one to five years. Only for the loans granted by Government a period of 10 to 20 years is being allowed generally.

The record of right and title of ownership are very clear under the present rules. Attempts are being made to have the independent registry of the lands in the name of actual owners and no further rules are necessary. It is only the previous encumbrances that make the mortgages worse; in some cases owing to the high cost of encumbrance certificates, the loans are advanced in several cases without caring to look into the previous encumbrances solely depending on the variation of the borrowers. In some cases their version becomes false and loss accrues. The fees for encumbrance certificate may be reduced by one-half. The opening of a mortgage bank will be beneficial to the public. The bank will have to run from funds from central institutions and deposits by private persons. The bank should necessarily carry on Government guarantee for both principal and interest. It should raise moneys at 6 per cent interest and lend money at 9 per cent to cover up the expenses. If the bank fairly works with Government security it can raise adequate provision of long term credit.

5. The estimate of debts under different classes of loans can best be arrived at only on a proper enquiry. The debts are incurred for the purposes enumerated in the questionnaire. Most of the debts is due to professional money-lenders. The people have to finally sell away all their properties without a way to discharge the debts. The investors being very few no special facilities are necessary.

The little profit the agriculturists derive by sale of produce, etc., is to be spent on several causes:—

- (1) Defraying agricultural expenses.
- (2) House-building and marriage expenses.
- (3) Expenditure for their children's education.
- (4) Payment of land revenue and repayment of previous debts, if any.

6. Subsidiary industries such as rice-milling and cotton-ginneries are also carried on in this division successfully to some extent. There are some 25 to 30 rice mills and there is one ginning factory in this division. The agriculturists will have sufficient work throughout the year provided there is timely rainfall. In times of scarcity of rainfall also, they will have enough of work, as the watering of the fields will have to be carried on by baling from wells and rivers. They cannot be expected to be fit for any other work. No finance seems necessary under this head.

6-A. The industries enumerated in question 6-A are being carried on in the division. The above industries are thriving well, with self and borrowed capitals. There are enough of merchants at Turaiyur, Manachanallur, Poovalur and other places to advance money to the weavers and take their goods as soon as they are ready.

7. Information will be available in detail from the department concerned.

II.—Indigenous banking.

1. Indigenous bankers lend money on personal security and also on mortgages of landed properties. Some of the bankers deal in hundis also on discount system. These bankers advance loans for a short period on an interest of 12 to 18 per cent.

3. The indigenous banks are mostly owned by a single person and in rare cases there are one or two co-sharers. Each bank transacts business with a capital of Rs. 50,000 to one lakh. Bankers are mostly Nattukkottai Chettis of Ramnad district. Each bank is managed by local agents on a salary of Rs. 25 to Rs. 50. They have under them some two or three servants on a pay of Rs. 10 to Rs. 15 according to their capacity. Monthly salaries, contingencies, interest on borrowed capitals and income-tax, etc., are paid out of the amounts and accounts are maintained. All such banks are independent of each other.

5. The bankers lend money on personal security taking one or two sureties for a short period, say one year. In rare cases, they lend money for a long term of about three years. But in the latter case also the interest is made payable every year. The interest is charged at 2 to 3 per cent a month with

an oral understanding that interest will be charged at a certain low rate if the payment is regular, failing which, the full amount will be claimed. This sort of stipulation is intended to ensure timely payment of loans. The bankers are investing their own money in the business. Some time they borrow money at a low rate of interest from elsewhere and transact business. The interest they allow on borrowed capitals will be about 5 to 8 per cent according to the term fixed for repayment.

6. The bankers charge interest against the agriculturists from 15 to 24 per cent. Some unscrupulous bankers charge interest even at 30 per cent. In Courts of Law, the interest amount is decreed as per terms of the contract. This tells much upon the debtors. It will be certainly fair and beneficial to the public if any standard of interest is fixed by law as it could not be restricted by any other method.

7. Generally there is no dislike against the indigenous bankers. They are sufficiently protected in law. No further facility seems to be necessary to them. Except charging of interest at a very high rate, the dealings of bankers with their debtors call for no remarks.

8. The banks may be made more serviceable to the community if the rate of interest is regularised by law. This will improve the banking system and lead to its consolidation also. These banks may be ordered to be got registered under the Act and audited annually. Of course some would be unwilling to have their business controlled by law but it will be found feasible in the long run.

9. There can be a net gain at 8 to 10 per cent after meeting all sorts of expenses.

10. The bankers are in good condition to comply with the demands but they have to refuse application on account of insufficient security and failure of repayment of loans advanced.

11. If the banking by private persons is got registered and the business is transacted under definite rulings framed, it would attract the public to invest their surplus in the bank. The capital will be increased. Then they may have transaction with the central money markets and thus the indigenous banks may be connected with the central banks. By having a regular transaction gradually, the central bank will inspire the confidence of the bankers. For this purpose, it would be better if a branch of the joint stock bank is opened at each taluk headquarters. If this branch of the joint stock company is made to have transactions with the indigenous banks and they are made to work jointly the competition will cease.

12. Yes. Some of the rich persons have got their transaction with the Imperial Bank of India or with some joint stock companies for want of proper indigenous banks in the local areas. If the indigenous banks are improved by making them to work under definite rulings, there could be safety to the public money invested therein and this will be beneficial to the local area within the district.

III.—Investment habit and attraction of capital

1. The information is not available. The people generally invest their savings in some of the recognized banks and co-operative banks. The population who can find savings for investment are very few in these parts. The little savings they make, they have to spend for family expenses in the purchase of silver and gold ornaments. The question of savings is practically nil with the majority of the people in the division. Small savings that are made by Government officials are invested in life insurance policy. The postal savings bank and Cash Certificate system in life insurance policy. Any increase in the rate of interest will attract more people. No change is required in the existing period of issue. The people do not seem to go in for purchase of Government securities nowadays. The postal savings bank system and Cash Certificate system are sufficient to the small investors of the country.

3. Several of the ryots are reduced to nil balance. Very few persons are able to invest their surplus in the purchase of fresh lands. They always reserve some money in stock without investing it anywhere.

The farmers lend money to agriculturists to meet the expenses of cultivation and they recover it from the produce without any interest. The surplus money they get in a prosperous year is invested in the purchase of lands.

4. The cheque system is not generally working in this division. There is no need to promote the cheque habit, since the currency notes are largely in circulation which offer facilities for free use of money.

5. The banking and investment habit is very slow in these parts and it is due to want of money among the public at large. The expenses are always greater than the income. The people of these parts are not generally in a position to make savings and a very few ryots who make some savings have their own ways of investment by lending money for interest for short intervals and by purchase of fresh lands when opportunity occurs. They will not be for investment in Government loans. No change is experienced in these parts by the opening of new branches in recent years by the Imperial Bank of India.

